DigiTel Group Limited
數通集團

DIGITEL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination of GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document, for which the directors of DigiTel Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief:- (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Lee Chuen Bit

Mr. Kong Siu Ming

Mr. To Siu Lun

Mr. Wong Siu Wa

Non-executive Director

Mr. Fan Ren Da, Anthony

Independent Non-executive Directors

Mr. Ho Chiu Kee

Mr. Leung Ka Kui, Johnny

AUTHORISED REPRESENTATIVES

Mr. Lee Chuen Bit

Mr. Tam Tak Wah

COMPANY SECRETARY

Mr. Tam Tak Wah, *FHKSA, FCCA*

QUALIFIED ACCOUNTANT

Mr. Tam Tak Wah, *FHKSA, FCCA*

COMPLIANCE OFFICER

Mr. To Siu Lun, *AHKSA, FCCA*

AUDIT COMMITTEE

Mr. Ho Chiu Kee *(Chairman)*

Mr. Leung Ka Kui, Johnny

Mr. To Siu Lun

AUDITORS

RSM Nelson Wheeler

Certified Public Accountants

7th Floor, Allied Kajima Building

138 Gloucester Road

Hong Kong

REGISTERED OFFICE

Century Yard

Cricket Square

Hutchins Drive

P. O. Box 2681 GT

George Town

Grand Cayman

British West Indies

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

43rd Floor

The Center

99 Queen's Road Central

Central

Hong Kong

CORPORATE INFORMATION

COMPANY HOMEPAGE

http://www.digitelgroup.com

PRINCIPAL BANKER

Industrial and Commercial Bank
of China (Asia) Limited
Ground Floor
162-164 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
P. O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
5th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

SPONSOR

First Shanghai Capital Limited
19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

STOCK CODE

8030

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of DigiTel Group Limited (the "Company") will be held at 43/F., The Center, 99 Queen's Road Central, Central, Hong Kong on Monday, 29 April 2002 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and the auditors for the financial year ended 31 December 2001;

2. To re-elect the retiring director and to authorise the board of directors to fix the remuneration of the directors;

3. To re-appoint the auditors and to authorise the board of directors to fix their remuneration; and

4. As special business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:—

   (A) "**THAT**

   (i) subject to paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers, be and the same is hereby generally and unconditionally approved;

   (ii) the approval in paragraph (i) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as defined below), (b) the exercise of warrants to subscribe for shares of the Company or the exercise of any securities which are convertible into shares of the Company or the exercise of options granted under any share option scheme adopted by the Company, or (c) an issue of shares of the Company in lieu of whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

(iv) for the purpose of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and

(c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting of the Company.

"Rights Issue" means an offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

(B) "**THAT**

(i) subject to paragraph (ii) below, the exercise by the directors of the Company during the Relevant Period (as defined below) of all powers of the Company to purchase issued shares in the capital of the Company on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in connection with all applicable laws and the requirements of the Rules Governing the Listing of Securities on GEM or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of shares of the Company which the Company is authorised to purchase pursuant to the approval in paragraph (i) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and

(iii) for the purpose of this resolution:

"Relevant Period" means the period from the date of passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and

(c) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting."

(C) "**THAT** conditional upon ordinary resolutions nos. 4(A) and 4(B) above being passed, the aggregate nominal amount of shares of the Company which are purchased by the Company under the authority granted to the directors of the Company as mentioned in ordinary resolution no. 4(B) above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to ordinary resolution no. 4(A) above."

(D) "**THAT** the directors of the Company be and hereby authorised to grant options under its share option scheme adopted on 30 June 2000 and any other share option scheme of the Company entitling participants to acquire shares of HK$0.10 each in the share capital of the Company pursuant to the exercise of options representing up to an aggregate of 10% of the issued share capital of the Company at the date of passing of this resolution."

By Order of the Board
Kong Siu Ming
Co-Chairman

Hong Kong, 28 March 2002

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P. O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Principal place of business:
43rd Floor
The Center
99 Queen's Road Central
Central
Hong Kong

Notes:

(i) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.

(ii) In order to be valid, the proxy form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority), must be delivered to the Company's branch share registrar and transfer office in Hong Kong, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

(iii) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(iv) An Explanatory Statement containing further details regarding ordinary resolution no. 4(B) as required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange will be despatched to the members of the Company together with the 2001 annual report.

It is our great pleasure to present to the shareholders the second annual report of DigiTel Group Limited (the "Company") and its subsidiaries (collectively, the "Group") since the Company's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in July 2000.

RESULTS AND DIVIDENDS

The year 2001 has been a year of challenge for the Group. Under the negative effects of a general worldwide economic slowdown in telecommunication industry, the Group recorded a loss attributable to shareholders of HK$58.7million. Turnover dropped by 45.1% from HK$134.7 million in 2000 to HK$73.9 million in 2001. The overall gross profit margin has been reduced from 52.0% in 2000 to 4.0% in 2001.

No interim dividend has been declared and the Board of Directors (the "Directors") does not recommend the payment of a final dividend.

BUSINESS REVIEW

During the past year, the Group continued its prudent strategies and took great efforts to preserve its competitive edges in its core business of system integration and engineering of broadband multimedia communication networks and will continue to pursue the Internet businesses in order to support and strengthen its core business.

The Core Business

System integration and engineering of broadband multimedia communication networks is the core business of the Group. It continues to be the major source of income of the Group, accounting for 59.5% of the Group's total turnover in 2001.

Geographically, the Group concentrates on the PRC and Hong Kong markets where the Group has long presence and strong connections. In particular, the Group focuses on the market of new telecommunication carriers emerged from the rapid growth of the telecommunication market in the PRC.

As the PRC has joined the World Trade Organisation ("WTO"), the country's private and public companies alike are seeking improvement in telecommunications as part of the means to become more competitive in the new environment. As such, the Group has established a representative office in Beijing of the PRC to facilitate its marketing activities in the northern part of the PRC and has established three wholly-owned enterprises in Guangzhou of the PRC to cater for the business opportunities in the southern part of the PRC. In Hong Kong, the Government is taking a leading role in promoting e-businesses and is encouraging the private sector to do so. Such developments provide substantial opportunities for the Group's system integration and engineering of broadband multimedia communication networks business and the Internet businesses.

Meanwhile, the Group has maintained a good relationship with its major international equipment suppliers. For example, in the year 2000, the Group has entered into several agreements with Nortel Networks (Asia) Limited ("Nortel Networks") for the purchase of products from Nortel Networks up to 31 December 2001, of which part of the amount will be financed by Nortel Networks by way of a 3-year deferred payment loan with conversion right. In June 2001, the Group established business relationship with another international reputable equipment supplier, Enterasys Group, for the supply of high quality and features-rich networking switch routers, which would enable the Group to deliver comprehensive data communication solutions to the Group's target customers.

The Internet Businesses

The Internet businesses marked a turnover of HK$15.1 million which is 20.5% of the Group's total turnover of this year. Though the turnover has dropped by 27.3% as compared to last year, the segment loss has been significantly increased from HK$14.1 million in the year 2000 to HK$72.0 million in the year 2001.

To facilitate the growth of the Internet businesses, capital investment and operating expenses are required to ensure the quality of services, to attract new customers and to build up customers' loyalty, which are the costs to pay in any new business. However, in light of the current market condition and slowdown of the Internet economy, the Group has implemented a tighter cost control in operating expenses as well as capital investment for this year. In addition, the Group has redefined its business strategies so that the focus of this business unit will be concentrated on profit-oriented businesses while loss-making businesses will be faded out. As such, starting from the second half of this year, the Group has directed its resources to the system integration service and has retracted its development pace in the Internet services.

In addition, the Group has the view that strategically alliance with companies with synergy is a good way to accelerate its pace towards the PRC market. As such, the Group acquired 17% interests in Netpolis Communications Hong Kong Limited in December 2001 to complement the Group's business expansion plan.

FUTURE PROSPECTS

Despite the unsatisfactory financial results of this year, the Company has put a lot of efforts in the consolidation of the businesses, streamlining the operating costs and strategies formation. The Directors believe that a solid business model capable of providing stable income and good profitability is taking shape within the Group. The business model is built on the Group's positioning as a total communication solutions provider, with its core business of network development gradually integrating with the Internet businesses to spearhead the growth momentum.

The Directors believe that with the PRC entry into the WTO, the telecommunication market in the PRC is promising and the demand for Internet connectivity would be overwhelmingly high. As such, the Group will continue to pursue business opportunities in the establishment of optical fibre network, or Last Mile Connection ('LMC') network in the PRC. The Group will continue to evaluate the feasibility of this project with the Provincial Electric Power Bureau in the southern province of the PRC.

In addition, the Group will explore the business opportunities in the area of power supply sector, such as the promotion of energy saving system to property management companies and residential/commercial buildings. The Group will further foster its relationship with the PRC regional power supply bureaus so as to commence the LMC project and will also explore the business opportunity in the power plant service of which the Group has accumulated years of experience and technical know-how in this aspect. The Directors believe that the Group would be able to benefit from this development and will create value to the shareholders and long-term business opportunities.

Barring unforeseeable circumstances, the Directors are optimistic that the Group will achieve better results with measures and administrative structural changes that were instigated last year.

APPRECIATION

On behalf of the Directors, we would like to take this opportunity to express our gratitude to our shareholders, customers, banks, business partners and hardworking staff for their contribution and support to the growth of the Group.

Lee Chuen Bit and Kong Siu Ming

Co-Chairmen

Hong Kong, 26 March 2002

BUSINESS REVIEW

The Core Business

For the year ended 31 December 2001, the turnover of the Group's core business of system integration and engineering of broadband multimedia communication networks is HK$43.9 million. Compared with the year 2000, the core business's turnover decreased by 55.2%. The downturn of the business results was mainly attributable to the fact that less system integration contracts had been completed during the year 2001 as compared to the previous year. In this year, the pre-sales cycle for system integration contracts were generally prolonged as more customers prefer to use open bid method for the selection of system integrator which involves more time for preparation and documentation before the contract can be awarded.

During the period under review, the Group served several major customers, amongst them includes a contract with the Guangdong Provincial Power Bureau for the construction of a telecommunication backbone in the Guangdong region. The successful award of this contract has reinforced the market position of the Group in the telecommunication service of the power sector of the PRC and would sharpen the competitive edges of the Group in this business sector.

The Group will continue to promote the services in the power sector of the PRC and will actively promote such services to other provinces of the PRC with a view to secure more contracts in the year to come.

The Internet Businesses

For the year ended 31 December 2001, the turnover of Internet businesses is HK$15.1 million. Compared with the year 2000, the turnover of this sector decreased by 27.3%. The Group's Internet businesses comprise mainly web application services, customized solution services and ISP services. Web application services include advertising income in the Group's web site www.corp2net.com, technical consultancy income in respect of web-based applications and monthly service fees from ASP services. Since the slump of the Internet market, the demand for such services has decreased substantially. In order to sustain the business, the Group has redefined its focus to the customized solution services, which is to provide tailor-made solutions to individual customers based on their needs and requirements. Such services are well received in the market and during the period under review, the Group has signed more than 10 contracts and achieved a turnover of over HK$1 million. Customers include the Education Department and the Legislative Council of the Hong Kong SAR Government. As regard to the ISP services, due to the keen competition in pricing, in particular the IPVPN services, the Group has recorded a negative profit margin in this business sector. In view of this, the Group has retracted its development pace in this sector and will focus on the development of the value-added ISP services in the PRC.

FINANCIAL REVIEW

For the year ended 31 December 2001, the Group achieved a turnover of HK$73.9 million representing a 45.1% decrease from HK$134.7 million for the year 2000. The Group recorded an audited consolidated loss attributable to shareholders of HK$58.7 million as compared to the audited consolidated loss attributable to shareholders of HK$49.4 million for the year 2000.

The downturn of the business results is mainly attributable to the fact that less system integration contracts had been completed during the year 2001 as compared to last year. The gross profit margin in this year is 4.0% while in last year is 52.0%. The thinner gross profit margin reflects the fact of keen competition and the unfavourable market conditions.

The administrative expenses for this year increased by 92.8% to approximately HK$49.7 million despite a decrease in turnover by 45.1% to approximately HK$73.9 million as compared to last year. The significant increase in administrative expenses was attributable to the fact that for the year 2001, the Group has undertaken 3 lines of businesses, namely, system integration and engineering of broadband multimedia communication networks, ASP and ISP businesses. However, the ASP and ISP businesses commenced operation in February 2000 and March 2000 respectively and became in full operation in the third quarter of the year 2000. Hence, there is a substantial increase in depreciation charge as a result of fixed assets investment in computer and network equipment, office rent and rates, research and development and salaries in the year 2001 as compared to the corresponding year 2000.

In addition, a gain of HK$23.52 million was recorded in this year for the forfeiture of advanced deposits paid to the Group following the failure of the purchaser to proceed to the completion of the acquisition of 49% interests in a subsidiary, iGreatLink.com Limited ("iGreatLink"). This subsidiary now remains 100% owned by the Group.

As at 31 December 2001, the Company performed an assessment on the fair value of its assets, including goodwill that had previously been eliminated against reserves. The assessment was based on the value in use of the assets as determined at the cash generating unit level (the individual business operations) based on the present value of the estimated future cash flows. As a result of this assessment, a provision of HK$8.5 million has been made for impairment in goodwill arising from acquisition of a subsidiary and a provision of HK$6.8 million has been made for diminution in value of investment securities. In addition, the same assessment was also carried out in respect of the goodwill and provision for diminution in value of investment securities previously eliminated against reserves. As a result, it was determined that a permanent diminution in value had occurred, and in accordance with SSAP 24, 30 and 31, the Group has retrospectively restated the opening retained earnings of the Group as at 1 January 2001 and increased the reported loss for the year ended 31 December 2000 by HK$51.9 million.

Due to the compound effects of the above, the loss attributable to shareholders for the current year is HK$58.7 million, compared to a loss attributable to shareholders of HK$49.4 million in last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2001, the Group had total assets of approximately HK$179.9 million (2000: HK$184.6 million), including cash and bank balances of approximately HK$2.3 million (2000: HK$45.7 million). None of such cash and bank balances were pledged to secure banking facilities. Bank overdrafts, trust receipt loans and mortgage loan as at 31 December 2001 was approximately HK$13.6 million, HK$9.6 million and HK$7.9 million respectively (2000: HK$4.6 million, HK$5.4 million and HK$10.0 million respectively). All the bank borrowings are secured by (i) legal charge on the investment property of the Group and (ii) corporate guarantees given by the Company amounting to HK$62 million.

The Group's borrowings were mainly in Hong Kong dollars. Banking facilities were granted to the Group at normal market rate. As at 31 December 2001, the total available banking facilities was approximately HK$62 million of which approximately HK$31 million was utilized. Unutilised banking facilities was approximately HK$31 million.

The gearing ratio (total long-term borrowings/total shareholders' funds) of the Group as at 31 December 2001 was 14.9% (2000: 12.1%).

Almost all of the Group's cash is in Hong Kong dollars, the exposure to exchange fluctuation is minimal. Since most of the transactions of the Group are denominated in Hong Kong dollars or United States dollars, no hedging or other alternatives have been implemented.

CAPITAL STRUCTURE

The Group financed its operations by means of equity funding, loans from banks and financial institutions and funds generated from business operations.

In June 2001, the Company placed 29,166,667 new shares to an independent third party, which raised approximately HK$27.3 million. In addition, during the year, the debenture holders have converted in aggregate of HK$4,680,000 (US$600,000) debentures into 11,564,125 new shares.

Apart from intra-group liabilities and trade and other payables, as at 31 December 2001, the amount of short-term bank and other borrowings of the Group which will be repayable within a year was about HK$45.1 million (2000: HK$17.4 million) and the amount of long-term liabilities which will be repayable more than a year was about HK$14.7 million (2000: HK$15.6 million).

The Directors believe that on a long-term basis the Group's future operations, capital expenditure and the capital requirement will be funded from business operations and, if necessary, additional equity or loan financing or bank borrowing.

INVESTMENTS AND ACQUISITIONS

The Group has the view that strategically alliance with companies with synergy is a good way to accelerate its pace towards the PRC market. As such, the Group has acquired 17% interests in Netpolis Communications Hong Kong Limited ("Netpolis") to complement the Group's business expansion plan. Netpolis is principally engaged in the provision of telecommunication services to their customers in Hong Kong, the PRC and overseas and is an Internet service provider. It currently offers a broad range of international voice, data and bandwidth services to individuals, small and medium sized enterprises, corporations, local carriers and international carriers. It has offices in Hong Kong, the PRC, Australia, Canada and the United States. The Directors consider that the infrastructure provided by Netpolis can complement with the sale agent services provided by the Group to form a one-stop services to the customers.

Other than the foregoing, the Group did not have any plan for material investments and acquisition of capital assets as at 31 December 2001.

SEGMENTAL INFORMATION

System integration services continues to be the major source of income of the Group. In this year, the Group has secured more contracts in respect of sale of software and communication equipment, which did not involve the system integration services. The Group's profit margin for all principal activities segments are generally worse than last year due to the generally overall poor economic environment. Geographical markets are mainly in Hong Kong and the PRC (other than Hong Kong) which remain fairly the same for the current year and last year. The Directors expect that the PRC market will gradually become more important to the Group as it is the Group's policy to shift its market place to the PRC in the coming future.

CONTINGENT LIABILITIES

As at 31 December 2001, the Company had contingent liabilities in respect of (i) corporate guarantees given to banks for the banking facilities granted to the Group amounting to HK$62 million; (ii) guarantees for the due performance of certain subsidiaries under the finance leases and the convertible notes to Nortel Networks; and (iii) guarantees to a financial institute to secure a short-term loan granted to a third party to the extent of approximately HK$18.7 million.

CHARGE OF ASSETS

As at 31 December 2001, the investment property of the Group has been pledged to bank to secure the banking facilities granted to the Group.

EMPLOYEES

The total employees' remuneration, including that of the Directors, for the year ended 31 December 2001 amounted to approximately HK$21.6 million (2000: HK$29.4 million). The decrease in staff costs is mainly due to the reduction of the number of full-time employees from 133 (as at 31 December 2000) to 28 (as at 31 December 2001). The Group remunerates its employees based on their performance, experience and the prevailing industry practice and has operated a defined contribution Mandatory Provident Fund since 1 December 2000 and to which the Group makes contributions based on the relevant regulations.

SHARE OPTION SCHEMES

Pursuant to a pre-IPO share option scheme adopted by the Company on 30 June 2000 (the "Pre-IPO Share Option Scheme") under which the full-time employees including executive directors of the Company and its subsidiaries might be granted options to subscribe for the Company's shares at the exercise price of HK$1.05 each, options to subscribe for 90,000,000 Company's shares were granted to 8 employees on 3 July 2000, which represents 8.6% of the issued share capital of the Company at the date of this report. Each grantee has paid HK$1.00 to the Company as consideration for such grant. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain directors and employees of the Group to its growth. All options have a duration of 10 years from the date of grant of the options and each is exercisable after six months from the date of listing of the Company's shares on GEM and each shall be lapsed if the relevant grantee ceases to be employed by the Group. No share options can be granted under the Pre-IPO Share Option Scheme after the listing of the shares.

Options to subscribe for 10,000,000 Company's shares were lapsed during the year as one of the grantee ceased to be employed by the Group and there were outstanding options to subscribe for 80,000,000 Company's shares at 31 December 2001. The following are the details of the outstanding options:

Categories of grantees	Total no. of grantees	No. of underlying shares comprised in the options	Exercise price per share	Option period
Employees	7	80,000,000	HK$1.05	3 July 2000 to 2 July 2010

On 30 June 2000, the Company also adopted a share option scheme (the "Share Option Scheme") under which the directors and employees of the Company and its subsidiaries may be granted share options to subscribe for the Company's shares at an exercise price determined by the board of directors and shall be no less than the higher of (i) the closing price of the shares on the date of grant; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The purpose of the Share Option Scheme is to enable the Group to grant options to selected persons as incentives or rewards for their contribution to the Group. The total number of shares, which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option

Scheme and other option scheme of the Company (including the Pre-IPO Share Option Scheme), must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. A non-refundable nominal consideration of HK$1.00 is payable by the grantee upon acceptance of an option. The options are exercisable within a period not less than 3 years and not more than 10 years from the date of grant. As at 31 December 2001, no options were granted under the Share Option Scheme.

FUTURE PLAN AND PROSPECTS

The Group has formed solid business strategies and implementation plans for its core business and has taken a cautious mind to review new business opportunities. The Group will continue to pursue system integration projects with potential customers. The Group has endeavored to expand its clientele from power industry to other telecom companies and large entities in the PRC. In addition, the Group will continue to evaluate the Last Mile Project and will evaluate the business opportunities such as energy saving projects and power plant services with a view to broaden the income base. The Directors are confident that the Group can achieve its objective to become the leading system integrator in broadband multimedia communication networks in the PRC and Hong Kong markets.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTION

The independent non-executive directors of the Company have reviewed the continuing connected transaction regarding to the sub-lease of part of the office premises to Lit Cheong Group Limited during the period under review and confirmed that the transaction was (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.

USE OF PROCEEDS

The actual use of proceeds for the 6 months and for the year ended 31 December 2001 as compared to the proposed amount set out in the prospectus of the Company dated 6 July 2000 and subsequently revised in the annual report 2000 of the Company are as follows:

	For the 6 months ended 31 December 2001		For the year ended 31 December 2001	
	Proposed	**Actual**	**Proposed**	**Actual**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Research and development of web-based applications and software	3,900	932	7,800	3,474
Marketing and promotional activities	2,200	—	4,400	216
Enhancement of the Internet infrastructure of the Group	4,500	304	9,900	5,510
Equity investment in companies which are perceived by the Directors to have synergy with the Group's ASP and ISP businesses	2,500	10,500	10,000	18,950
Establishment of a sales and customer support service center and a research and development center in Guangzhou for the system integration business and the ASP business	—	5,250	5,000	7,000
	13,100	**16,986**	**37,100**	**35,150**

The proposed use of proceeds for the 6 months ended 31 December 2001 is HK$13.1 million, actual application of funds were HK$17.0 million. Owing to the downturn of the Internet businesses, the Directors have exercised stringent control on the application of funds, thus funds allocated to research and development, marketing and promotional activities and enhancement of Internet infrastructure of the Group have been significantly reduced. HK$10.5 million was incurred for the investment in a PRC company for the provision of ISP and its related value-added services. The Directors believe that by the partnership with this company in the development of telecommunication services in the PRC, the Group would be able to save its own resources in marketing and Internet infrastructure costs. As regard to the sales and customer support service center and a research and development center, the Group has formed 3 wholly-owned enterprises in Guangzhou of the PRC with an aggregate issued share capital of HK$7.0 million. HK$1.75 million has been made in the first half of this year and the balance of HK$5.25 million was paid in this period.

Business Objectives	Actual Business Progress/change of objective (if any)
System integration and engineering of broadband multimedia communication networks	
1. Plan and develop strategies such as forming business partnership or alliance and increasing direct sales for the expansion of service to places such as Taiwan and Korea. The Directors currently have no intention to set up offices in these countries.	Having regard to the present market conditions, the Group has determined to focus on the PRC market rather than expand to Taiwan and Korea. Currently, the Group does not have office in Taiwan and Korea.
2. Keep abreast of technological advancement and customers' requirement to provide system integration and engineering service by making use of new technology and equipment to satisfy customers' specification.	Through regular contact with customers and equipment suppliers, the Group has kept abreast to technological advancement and customers' needs to provide new system integration and engineering services.
3. Finalise the implementation of the Diyixian.com Limited project.	The project was completed in July 2001.
ASP	
1. Develop new application features for subscribers by in-house research or by modifying the applications developed by the Group's business partners, provided that such modifications are authorised. Such new application features include the following:	From April 2001 onwards, the Group has changed its strategy on the ASP services. Instead of enriching the applications and content on its web site "corp2net.com", the Group considers that the web site shall provide general applications, functions and content information to its customers, whereas sophisticated applications will not be provided in the web site and will be marketed on a tailor-made basis to individual customers. As such, the following applications have been developed and integrated in our ERP modules and will be modified and provided to individual customers on a tailor-made basis.

— Material Management such as purchasing, payable, inventory, expenses and asset management.	As mentioned above, this application has been developed and integrated in its ERP modules. Such application will be provided to customers on a tailor-made basis.
— Supply Chain Planning such as product modules, demand planning, enterprise planning and order promising.	As mentioned above, this application has been developed and integrated in its ERP modules. Such application will be provided to customers on a tailor-made basis.
— Service Revenue Management such as time and labour, payroll, billing, expenses, receivables, payables and purchasing.	As mentioned above, this application has been developed and integrated in its ERP modules. Such application will be provided to customers on a tailor-made basis.
— Procurement such as purchasing, payables, inventory, expenses and asset management.	As mentioned above, this application has been developed and integrated in its ERP modules. Such application will be provided to customers on a tailor-made basis.
— Integrated Resource Management such as service resource scheduling, traveller, projects and human resources.	As mentioned above, this application has been developed and integrated in its ERP modules. Such application will be provided to customers on a tailor-made basis.
— Commerce Exchange such as trading partner management, process tracking management and connectivity model.	As mentioned above, this application has been developed and integrated in its ERP modules. Such application will be provided to customers on a tailor-made basis.
2. Continue its direct sales effort to market its service of providing tailor-made e-commerce solutions and portal building to at least 2 new customers.	Proceeded as planned. During the period, the Group has concluded 5 new contracts. 4 of them are for the Education Department of the Hong Kong SAR Government and 1 of them is for the PRC customer.

3. Continue marketing strategies including direct mailing, distribution of corporate premiums, newsletters and leaflets to and launching of seminars and exhibitions for SMEs, Soho clients and professionals to consolidate its client base. Effort will shift from brand building to promotion of new application features of its ASP service.	No direct mailing and distribution of corporate premiums, newsletters and leaflet has been made as the Group considers such marketing channels are not cost effective. During the period under review, the Group has marketed its new applications through direct sales effort and presentations to potential customers.
4. Review and monitor effectiveness of new applications developed by third parties that have been incorporated and continue to seek appropriate new applications.	Our technical team has monitored the applications which are either developed by third parties or developed by its own on a regular basis and has modified the applications from time to time.
5. Continue to identify content providers whose contents have synergy with the Group and form content alliances with them to acquire industry news and general interest topics and to monitor the effectiveness of the content alliances already in place.	During the period under review, the Group has not entered into alliance with new content providers and the Group considers the present information provided in its web site "corp2net.com " is sufficient. The Group has modified the outlook and design of it so as to provide a more convenient way to access such information.
6. Continue to identify Internet companies whose businesses have synergy with the Group and form business partnerships with them for joint promotion and business development and to evaluate progress of improvement of brand image by way of such partnerships.	During the period under review, the Group has partnered with 2 solution provider companies in Hong Kong and the PRC to draw their support for the provision of tailor-made solutions to its customers. The Group considers that such partnerships is one of the efficient ways for promotion and business development.

ISP

1.	Taking into account all relevant regulatory restrictions, explore business opportunities to promote the services of iGreatLink into the PRC market and overseas markets through forming business alliances or joint ventures with business partners.	In December 2001, the Group has acquired 17% interests in an international ISP company. The Group considers that this co-operation would facilitate the Group to promote its business in the PRC market and overseas markets.
2.	Monitor the effectiveness of the CDS network and consider, if the Directors think fit, to upgrade the backbone network to satisfy the increasing customer demand for network capacity.	Proceeded as planned. The Group is constantly reviewing the quality of its CDS services and has regularly maintained the system so as to meet the customer demand for network capacity.
3.	Review and upgrade the ISP services in terms of speed, volume and quality of transmission of the Internet network by following closely to the new technological advancement in the global Internet industry and by carrying out market research to collect customers' response.	Proceeded as planned. The Group has maintained a team of technical staff to review and monitor the quality of the ISP services. The customer services has collected the comments from the customers with a view to further enhance the network.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Lee Chuen Bit

Mr. Lee, aged 48, is the Co-Chairman and the founder of the Group. He has over 15 years of experience in the management of infrastructure-related companies. He holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong. He is a director and one of the co-founders of Lit Cheong Group. Mr. Lee has extensive experience in the management in the information technology and telecommunication sectors including networks integration, e-commerce service, international telephone service, national-wide paging services in the PRC and VSAT communication services in the PRC.

Mr. Kong Siu Ming

Mr. Kong, aged 38, is the Co-Chairman and Chief Executive Officer of the Group. He graduated from The Chinese University of Hong Kong majoring in Economics. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Prior to joining the Group in November 2001, he was the executive director of eForce Holdings Limited, a company of which the shares are listed on the main board of The Stock Exchange of Hong Kong Limited and the resident representative of Arthur Andersen in Beijing, the PRC. He has developed his career in the telecommunication projects in the PRC and Asian regions undertaken by multinational and the PRC domestic corporations.

Mr. To Siu Lun

Mr. To, aged 33, is the Executive Director, Chief Operating Officer of the Group. He graduated from The University of Hong Kong majoring in Economics. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Prior to joining the Group in November 2001, he was the chief operating officer of eForce Holdings Limited, a company of which the shares are listed on the main board of The Stock Exchange of Hong Kong Limited and had worked for more than nine years in the Hong Kong and Shanghai offices of Arthur Andersen.

Mr. Wong Siu Wa

Mr. Wong, aged 30, is the Executive Director of the Group. He holds a Bachelor of Science degree from The Chinese University of Hong Kong and has hands-on experience in developing different technology-related opportunities in voice and data communication. Prior to joining the Group in 1997, Mr. Wong had about 4 years of experience in data communication industry in Hong Kong and the Greater China Region. He has extensive exposure in Internet-related technologies and e-commerce business. His achievements include obtaining the ATM and SDH infrastructure contracts in Shunde, Zhongshan, Jinjiang and Guangdong.

Non-executive Director

Mr. Fan Ren Da, Anthony

Mr. Fan, aged 41, was appointed as Non-executive Director in June 2000. He is the managing partner of AsiaTech Ventures Limited, a fund manager of a number of technology funds. Mr. Fan has expertise in general management, corporate finance, mergers and acquisitions, company consolidation and restructuring. Prior to his appointment as the managing director of AsiaTech Ventures Limited, he was the managing director of Ta Fu International Holdings Limited for the period from August 1994 to September 1998. Before that, Mr. Fan held senior positions in a number of international financial institutions. Mr. Fan obtains a Master of Business Administration degree in the United States. He is an independent non-executive director of Raymond Industrial Limited and South East Asia Wood Industries Holdings Limited (both companies listed on the Stock Exchange) and also holds directorships in other private companies and is an assessor of the Hong Kong Innovation and Technology Fund SERAP Project Assessment Panel.

Independent non-executive Directors

Mr. Leung Ka Kui, Johnny

Mr. Leung, aged 44, was appointed as Independent Non-executive Director in June 2000. He has over 15 years of experience in legal field and is the senior partner of Messrs. Johnny K.K. Leung & Co., Solicitors & Notaries. He is a qualified solicitor in Hong Kong, England & Wales and Singapore, and is a Notary Public and China Appointed Attesting Officer. He is an independent non-executive director of Cardlink Technology Group Limited, Celestial Asia Securities Holdings Limited, 401 Holdings Limited and Jackin International Holdings Limited. He was a director of Yan Chai Hospital for the years from 1997 to 2000, a consultant to the board of directors of Yan Chai Hospital for the years from 2000 to 2001 and was the president of Rotary Club of Kwai Chung for the years 1997 to 1998.

Mr. Ho Chiu Kee

Mr. Ho, aged 49, was appointed as Independent Non-executive Director in June 2000. He has over 10 years of extensive experience in management and administration. He is the managing director of Guardian Group, a vice president of Hong Kong Institute of Real Estate Administration, the president of Hong Kong Association of Property Management Companies, a member of Security Services Training Board, Vocational Training Council, a member of Appeal Board Panel — Electricity Ordinance (Cap 406) and a member of Consultative Committee for the Facility Management Supervisory Vocational Qualifications Scheme. He holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong.

SENIOR MANAGEMENT

Mr. Tse Kwok Shek

Mr. Tse, aged 45, is the System Integration Director of the Group. He has extensive experience in system integration service and logistics control. Mr. Tse had worked in Industrial and Commercial Bank of China (Asia) Limited (former name: Union Bank of Hong Kong Limited) and Chiyu Banking Corporation Limited for over 15 years in the area of trade finance and business operations. Prior to joining the Group in April 2000, he had worked for Lit Cheong Group for over 10 years.

Mr. Tam Tak Wah

Mr. Tam, aged 36, is the Corporate Development Director, Company Secretary and Financial Controller of the Group. He is a fellow member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and has over 10 years of experience in accounting, corporate finance and corporate development. He had worked for Price Waterhouse Hong Kong in his early years and assisted a number of corporations in corporate finance, accounting and business development. Prior to joining the Group in April 2000, he had worked for Lit Cheong Group for over 4 years. He is now responsible for the Group's commercial contracting, documentation, financial and legal matters.

Mr. Man Tai Loi, Taylor

Mr. Man, aged 32, is the Technical Director of the Group. He was graduated from California State University of Hayward in the United States with a Bachelor degree in Computer Science. He started his career in the telecommunication industry in the United States and has over 10 years of experience in the field. Mr. Man has worked for several renounced companies in the Silicon Valley including, eManage.com and eFax Communication. Mr. Man has extensive experiences in the areas of Internet infrastructure, LAN/WAN infrastructure design and implementation. Mr. Man came back to Hong Kong in the year 2000 and has been involving in various telecommunication projects in the PRC since then. Before joining the Group in November 2001, Mr. Man was the Technical Director of eForce Holdings Limited.

Mr. Kwok Tak Wai

Mr. Kwok, aged 37, is the Area Sales Manager of the Group. He has over 10 years of experience in the telecommunication sector especially in Hong Kong and the PRC, among which he has been involved over 6 years in the sales and marketing of networking products and solutions to various customers in the PRC market. Mr. Kwok has been involved in major projects of the Group including selling DDNs and frame relays, ATM networks, routers and remote access server solutions to telecommunication companies and ISPs. Previously, Mr. Kwok was also actively involved in formulating Internet solutions with bundled e-commerce applications. Mr. Kwok joined the Group in May 1998.

Mr. Deng Xiang Jun, Mathew

Mr. Deng, aged 37, is the VP-Northern China of the Group. He was graduated from The Beijing University of Posts and Telecommunications ("BUPT") and received the bachelor and master degrees there. Mr. Deng has completed the MBA school of China Science and Technology University. After spending 3 years with the BUPT as a lecturer, Mr. Deng joined the telecommunication sector and has worked as a marketing manager and a project director for several U.S. multinational companies, including American Network Technologies, Primealliance International and iBasis Inc. Mr. Deng maintains good working relationship with the MII and the various local post and telecommunications bureaus.

Mr. Lan Ri Guang, Thomas

Mr. Lan, aged 36, is the VP-Southern China of the Group. He was graduated from The Beijing University of Posts and Telecommunications with major in Mechanical Engineering. He has then worked for several multi-national companies in the telecommunication sector as the PRC General Manager, including Tesonic Communication, Tesonic Satellite and Hidigit Traffic System. Mr. Lan is familiar with the market for Internet data center in the southern part of China. Before joining the Group, Mr. Lan held the positions as the Senior VP, Southern China of eForce Holdings Limited and General Manager of China InfoHighway Communication Co., Ltd. — Guangzhou and Shenzhen Branches.

Mr. Lee Lok Tung

Mr. Lee, aged 33, is the VP-PRC Business Development of the Group. He graduated from The City University of Hong Kong with major in International Business Studies. Mr. Lee has over seven years experience in the telecommunication industry in the PRC. Mr. Lee also has a solid sales and marketing background gained from his prior employments with ChungKiu Telecommunications (China) Co. Ltd. and Senao Communications Enterprise Group.

Mr. Tsang Chi Wah, Terrence

Mr. Tsang, aged 26, is the VP-Business Development of the Group. He obtained both his Bachelor and Master of Commerce degrees from The University of Sydney, Australia with majors in Accounting, Economics and Finance. Mr. Tsang is an associate member of CPA, Australia. Mr. Tsang started off his career with Arthur Andersen, Hong Kong focusing on international corporate structure and tax planning. Mr. Tsang has assisted several multi-national corporations in formulating their investment and operating strategies in the PRC, particularly in the telecommunication industry.

DIRECTORS' REPORT

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's principal activities consist of providing system integrations, sale of software and communication equipment, providing web application, Internet, maintenance and consultancy services.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to loss from operations for the year by principal activities and geographical markets is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2001 and the state of the affairs of the Company and of the Group at that date are set out in the consolidated financial statements on pages 42 to 95.

The directors do not recommend the payment of a dividend for the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 96.

PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2001 are set out in note 15 to the financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group and of the Company are set out in note 13 to the financial statements.

INTANGIBLE ASSETS

Details of movements in the intangible assets of the Group are set out in note 14 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 26 to the financial statements.

DONATIONS

The Group did not make any charitable donations during the year.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2001 amounted to HK$34,223,000 (2000: HK$9,653,000). Under Section 34 of the Companies Law (2000 Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless the Company shall be able to pay its debts as they fall due in the ordinary course of business.

BANK AND OTHER BORROWINGS

Particulars of the bank and other borrowings of the Group as at 31 December 2001 are set out in note 23 to the financial statements.

CONVERTIBLE DEBENTURES

Details of the convertible debentures issued by the Company during the year are set out in note 24 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year, together with reasons therefore, and details of the Company's share option scheme are set out in note 25 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales	
— the largest customer	32%
— five largest customers combined	66%
Purchases	
— the largest supplier	30%
— five largest suppliers combined	75%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its listed shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year.

DIRECTORS

The directors who held office during the year were:

Executive directors:

Mr. HUNG Hin Cheong	— resigned on 29 November 2001
Mr. KONG Siu Ming	— appointed on 29 November 2001
Mr. LEE Chuen Bit	
Mr. TO Siu Lun	— appointed on 29 November 2001
Mr. TSANG Hing Lun	— resigned on 10 October 2001
Mr. WONG Siu Wa	

Non-executive director:

Mr. FAN Ren Da, Anthony

Independent non-executive directors:

Mr. LEUNG Ka Kui, Johnny

Mr. HO Chiu Kee

Mr. WONG Siu Wa shall retire at the forthcoming annual general meeting in accordance with article 87 of the Company's Articles of Association and being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. LEE Chuen Bit, Mr. HUNG Hin Cheong, Mr. WONG Siu Wa and Mr. TSANG Hing Lun, the executive directors, has entered into a service contract with the Company on 1 April 2000 for a term of three years from 1 April 2000 with an aggregate monthly salary of HK$240,000. Under the service contracts, after each completed year of service, their remuneration may be increased by not more than 15% at the discretion of the directors and they will each be entitled to a discretionary bonus provided that the total amount of bonus payable to all the directors for such year shall not exceed 15% of the combined/consolidated profit after taxation but before extraordinary items of the Group for relevant year. During the year, two of the above directors, Mr. HUNG Hin Cheong and Mr. TSANG Hing Lun resigned and their service contracts were terminated on 29 November 2001 and 10 October 2001 respectively.

DIRECTORS' SERVICE CONTRACTS *(Continued)*

No service contracts have been made for Mr. KONG Siu Ming and Mr. TO Siu Lun.

The Company shall be entitled to terminate the contracts without any compensation to the directors by not less than three months' notice, or by summary notice with immediate effect, in writing under certain conditions as stipulated in the service contracts.

Save as disclosed herein, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 25 to 29 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements, no contracts of significance in relation to the Company's business to which the Company, its holding company, its subsidiaries or its fellow subsidiaries was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Related party transactions entered by the Group during the year, which also constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market on the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules, are disclosed in note 32 (a) and (b) to the financial statements.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2001, the interests of the directors in the share capital and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as required to be recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

	Number of shares of HK$0.1 each in the Company	
Name of directors	**Corporate interests**	**Personal interests**
Mr. LEE Chuen Bit	643,242,469 *(note)*	—
Mr. WONG Siu Wa	—	50,502,779

Note:

The Shares are held by Lit Cheong Holdings Limited, the issued share capital of which is equally and beneficially held by The Grand Nature Trust ("GNT") and The Grand Will Trust.

Under the terms of GNT, certain members of the family of Mr. LEE Chuen Bit are potential capital beneficiaries of the trust (so that they may become capital beneficiaries of the trust). Mr. LEE Chuen Bit is not at present a potential capital beneficiary of GNT, but he is eligible to be declared as such pursuant to the existing provisions of the trust. Any of the potential capital beneficiaries may become a capital beneficiary if and when so declared as such pursuant to the applicable provisions of GNT, provided that he/she is not excluded under the provisions of the trust. Under the terms of the trust, the beneficiaries also include charities namely the Tung Wah Group of Hospitals, the Community Chest of Hong Kong, The Barbados Cancer Society and the Duke of Edinburgh's Award Scheme, if their respective purposes are recognised as exclusively charitable under Cayman Islands laws.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company adopted on 30 June 2000, the directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of the Company at an exercise price of HK$1.05 each. No share options can be granted under the Pre-IPO Share Option Scheme after the listing of the shares of the Company on 12 July 2000.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

As at 31 December 2000, 20,000,000 options, which have a duration of 10 years from the date of grant of the options and exercisable after six months from the date of listing of the shares of the Company on GEM, were granted to Mr. TSANG Hing Lun under the Pre-IPO Share Option Scheme. As Mr. TSANG has resigned as a director of the Company on 10 October 2001, the options granted to him were lapsed on 9 January 2002 (i.e. the date after three months of termination of his employment).

Under the share option scheme of the Company adopted on 30 June 2000 (the "Share Option Scheme"), the directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of the Company at an exercise price determined by the board of directors and shall be no less than the higher of (i) the closing price of the share on the date of grant; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The options are exercisable within a period not less than 3 years and not more than 10 years from the date of grant and subject to the following conditions:

(1) the total number of shares which may be acquired pursuant to the exercise of options under the Share Option Scheme and any other share option scheme of the Company (including the Pre-IPO Share Option Scheme), must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time;

(2) subject to (1) above, the Company may seek approval by shareholders of the Company ("Shareholders") in general meeting to grant options under the Share Option Scheme and any other share option scheme of the Company (other than Pre-IPO Share Option Scheme) entitling participants to acquire shares pursuant to the exercise of options representing up to an aggregate of 10% of the issued share capital of the Company at the time of approval ("General Mandate Limit"), which may be renewed by shareholders in general meeting from time to time;

(3) subject to (1) above, the Company may seek a separate shareholder's approval in general meetings to grant options beyond the General Mandate Limit to participants specified by the Company before such approval is sought;

(4) if options are to be granted to a connected person (as defined in the GEM Listing Rules), the granting of such options will be subject to the approval of all independent non-executive directors;

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

(5) where options are proposed to be granted to a connected person who is also a substantial shareholder or any of his respective associates, and the proposed grant of options when aggregated with the options already granted to that connected person in the past 12 months period, would entitle him to receive more than 0.1 percent of the total issued shares for the time being and the value of which is excess of HK$5 million, the granting of such options will be subject to approval of the independent shareholders;

(6) in seeking the approval of the independent shareholders referred to in (5) above, the Company shall send a circular to its shareholders and the circular must contain a generic description of the specified participants who will be granted options beyond the 0.1 percent limit, the number and terms of the options to be granted and the recommendation of the independent non-executive directors on whether or not to vote in favour of the proposed grant; and

(7) details of the options granted to the directors of the Company and its subsidiaries and other employees specified in Rule 23.08 of the GEM Listing Rules and a summary of the major terms of each share option scheme adopted by the Company shall be disclosed in the Company's interim reports as well as annual reports.

As at 31 December 2001, no options were granted to the directors or chief executive of the Company under the Share Option Scheme since its adoption.

Apart from the above,

(a) at no time during the year, the directors and chief executive (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares in or debentures of the Company and its associated corporations (within the meaning of the SDI Ordinance); and

(b) at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

Name	Number of shares of the Company held
Lit Cheong Holdings Limited	643,242,469

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

RETIREMENT SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement scheme (the "MPF Scheme") under the Mandatory Fund Schemes Ordinance for all employees who are eligible to participate in the MPF Scheme. The MPF Scheme became effective from 1 December 2000. Contributions to the fund by the Group and employees are calculated as a percentage of employees' basic salaries. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's contribution to the MPF Scheme charged to the income statement was approximately HK$830,000 (2000: HK$111,000) for the year.

In the opinion of the Directors, the Group had no significant obligation for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2001.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since listed on GEM of the Stock Exchange.

AUDIT COMMITTEE

In compliance with Rule 5.23 to 5.25 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties.

The principal duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprise an executive director, Mr. TO Siu Lun, and two independent non-executive directors, namely Mr. LEUNG Ka Kui, Johnny and Mr. HO Chiu Kee. The audit committee met four times during the current financial year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as the Non-executive director, Mr. FAN Ren Da, Anthony who holds directorships in high technology and Internet-related companies, the directors are not aware of, as at 31 December 2001, any business or interest of each director, initial management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the Laws of the Cayman Islands.

SPONSOR'S INTEREST

Immediately upon dealing in the shares on GEM on 12 July 2000 and pursuant to Rule 6.59 of the GEM Listing Rules, First Shanghai Capital Limited ("First Shanghai") has received and will receive a fee for acting as the Company's retained sponsor for the period up to 31 December 2002.

As at 31 December 2001, neither First Shanghai nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in any class of securities of the Company or any other company in the Group, including options or rights to subscribe for such securities.

AUDITORS

On 30 January 2002, Messrs. PricewaterhouseCoopers and Messrs. Graham H.Y. Chan & Co. tendered their resignation as the auditors of the Company. At the same day, Messrs. RSM Nelson Wheeler were appointed as auditors of the Company by the Board. Accordingly, a resolution to re-appoint the retiring auditors, Messrs. RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

On behalf of the Board
Kong Siu Ming
Co-Chairman
Hong Kong, 26 March 2002

RSM Nelson Wheeler
Certified Public Accountants
羅 申 美 會 計 師 行

TO THE SHAREHOLDERS OF
DIGITEL GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 42 to 95 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the results and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong, 26 March 2002

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2001

	Note	2001 HK$'000	2000 HK$'000 (Restated)
Turnover	4	**73,906**	134,695
Cost of sales		**(70,926)**	(64,613)
Gross profit		**2,980**	70,082
Other revenue	4	**26,811**	3,442
Selling expenses		**(6,154)**	(19,702)
Administrative expenses		**(49,722)**	(25,784)
Other operating expenses		**(14,070)**	(22,134)
(Loss)/profit from operations	6	**(40,155)**	5,904
Finance costs	7	**(3,807)**	(2,237)
Share of loss of associates		**(555)**	(409)
Impairment of goodwill recognised upon the adoption of SSAP 31	2(a)	**(8,496)**	(21,847)
Revaluation deficit on investment securities previously recognised in reserve	2(b)	**(6,814)**	(30,102)
Loss before taxation		**(59,827)**	(48,691)
Taxation	8	**(84)**	(2,850)
Loss after taxation		**(59,911)**	(51,541)
Minority interests		**1,213**	2,102
Loss attributable to shareholders	9 and 26	**(58,698)**	(49,439)
		HK cents	HK cents
Basic (loss)/earnings per share			
Current year/prior year as previously reported		**(5.76)**	0.26
As retrospectively restated	11	**(5.76)**	(5.22)

The notes on pages 49 to 95 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
ASSETS			
Non-current assets			
Fixed assets	13	**39,475**	41,495
Intangible assets	14	**—**	8,190
Investments in associates	16	**721**	1,245
Investment securities	17	**51,000**	6,398
Financial asset	18	**10,500**	—
Goodwill	19	**—**	—
		101,696	57,328
Current assets			
Inventories - finished goods		**23,432**	220
Trade and other receivables	20	**52,515**	74,768
Contracts in progress	21	**—**	6,564
Bank and cash balances		**2,282**	45,689
		78,229	127,241
Less: **Current liabilities**			
Trade and other payables	22	**19,546**	26,151
Current portion of long-term borrowings	23	**9,010**	7,405
Convertible debentures	24	**12,870**	—
Provision for taxation		**1,609**	1,861
Trust receipt loans, secured	28	**9,558**	5,358
Bank overdrafts, secured	28	**13,637**	4,625
		66,230	45,400
Net current assets		**11,999**	81,841
Total assets less current liabilities		**113,695**	139,169

The notes on pages 49 to 95 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
Non-current liabilities			
Long term borrowings	*23*	**14,720**	15,564
Minority interests		**—**	(4,505)
		14,720	11,059
NET ASSETS		**98,975**	128,110
CAPITAL AND RESERVES			
Share capital	*25*	**104,073**	100,000
Reserves	*26(a)*	**(5,098)**	28,110
SHAREHOLDERS' FUNDS		**98,975**	128,110

Approved by the Board of Directors on 26 March 2002

Lee Chuen Bit	**Kong Siu Ming**
Director	Director

The notes on pages 49 to 95 form an integral part of these financial statements.

BALANCE SHEET

At 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
ASSETS			
Non-current assets			
Fixed assets	13	**171**	—
Investments in subsidiaries	15	**151,144**	110,724
		151,315	110,724
Current assets			
Prepayments and deposits	20	**1,320**	253
Bank balance		**33**	—
		1,353	253
Less: **Current liabilities**			
Other payables	22	**1,502**	1,324
Convertible debentures	24	**12,870**	—
		14,372	1,324
Net current liabilities		**(13,019)**	(1,071)
NET ASSETS		**138,296**	109,653
CAPITAL AND RESERVES			
Share capital	25	**104,073**	100,000
Reserves	26(b)	**34,223**	9,653
SHAREHOLDERS' FUNDS		**138,296**	109,653

Approved by the Board of Directors on 26 March 2002

Lee Chuen Bit	**Kong Siu Ming**
Director	Director

The notes on pages 49 to 95 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For The Year Ended 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
Exchange differences arising on translation of subsidiaries outside Hong Kong not recognised in income statement	*26(a)*	**(65)**	—
(Loss)/profit attributable to shareholders			
Current year/prior year as previously reported		**(58,698)**	2,510
Prior year adjustments			
— Impairment of goodwill recognised upon the adoption of SSAP 31	*2(a) and 26(a)*	**—**	(21,847)
— Revaluation deficit on investment securities previously recognised in reserve	*2(b) and 26(a)*	**—**	(30,102)
Total recognised losses as retrospectively restated		**(58,698)**	(49,439)
		(58,763)	(49,439)

The notes on pages 49 to 95 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	27(a)	**(34,332)**	(25,046)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**524**	2,426
Interest on convertible debentures		**(691)**	—
Interest on convertible notes		**(360)**	(75)
Interest on bank loan and overdrafts		**(1,682)**	(1,996)
Finance leases charges		**(1,074)**	(166)
Dividend paid		**—**	(10,000)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**(3,283)**	(9,811)
TAXATION			
Hong Kong profits tax paid		**(337)**	(3,525)
INVESTING ACTIVITIES			
Development and trademark costs		**(3,767)**	(9,927)
Purchase of subsidiaries	27(d)	**(8,450)**	(19,062)
Purchase of fixed assets		**(6,107)**	(24,258)
Proceeds from sales of fixed assets		**452**	21
Purchase of financial asset		**(10,500)**	—
Purchase of investment securities		**(51,416)**	(6,500)
Net cash outflow from partial disposal of a subsidiary	27(e)	**(54)**	—
Deposit forfeited for proposed partial disposal of a subsidiary	4(a)	**23,520**	—
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(56,322)**	(59,726)
NET CASH OUTFLOW BEFORE FINANCING		**(94,274)**	(98,108)

The notes on pages 49 to 95 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2001

	Note	**2001**	2000
		HK$'000	*HK$'000*
FINANCING	*27(b)*		
Net proceeds from issue of shares		**24,955**	128,346
Proceeds from sale and leaseback arrangements		**3,945**	7,393
Repayments of bank loan		**(2,091)**	(1,317)
Repayments of capital element of finance leases		**(5,521)**	(76)
Proceeds from issue of debentures		**23,400**	—
Redemption of debentures		**(5,857)**	—
Repayments of convertible notes		**(1,111)**	—
NET CASH INFLOW FROM FINANCING		**37,720**	134,346
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(56,554)**	36,238
EXCHANGE REALIGNMENT		**(65)**	—
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**35,706**	(532)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**(20,913)**	35,706
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**2,282**	45,689
Trust receipt loans, secured		**(9,558)**	(5,358)
Bank overdrafts, secured		**(13,637)**	(4,625)
		(20,913)	35,706

The notes on pages 49 to 95 form an integral part of these financial statements.

1. GENERAL

The Company was incorporated in the Cayman Islands on 9 March 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 12 July 2000. The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 15 to the financial statements.

2. PRIOR YEAR ADJUSTMENTS

(a) Adoption of new Statements of Standard Accounting Practice

In the current year, the Group has adopted a number of new Statements of Standard Accounting Practice (SSAPs) - SSAP 30 "Business Combination", SSAP 31 "Impairment of Assets" and Interpretation 13 issued by the Hong Kong Society of Accountants for the first time.

Adoption of these standards has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its assets, (including fixed assets, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the income statement.

In accordance with the provisions of Interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be reinstated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the income statement. The amendments to SSAP 30 and the provisions of Interpretation 13 are required to be reflected in accordance with the requirements of SSAP 2 and the transitional provision in SSAP 30.

2. PRIOR YEAR ADJUSTMENTS *(Continued)*

(a) Adoption of new Statements of Standard Accounting Practice *(Continued)*

The Group has performed an assessment of the fair value of its assets, including the related goodwill that has been previously eliminated against reserves and not restated. The adoption of the new SSAPs described above have resulted in a change in accounting policy and should be applied retrospectively. Accordingly, the Group has retrospectively restated and increased its accumulated losses brought forward at 1 January 2001 by HK$21,847,000 for the impairment of goodwill arising from acquisition of a subsidiary and an associate in prior years.

(b) Fundamental error

On 12 March 2002, the directors of the Group re-assessed the accounting treatment of the provision for diminution in value of investment securities amounting to HK$30,102,000, which was reflected as a deficit on investment revaluation reserve in the year 2000. In the opinion of the directors, such diminution had been permanent in nature at the time the previous year's financial statements were about to be approved. In accordance with paragraph 37 of SSAP 24 - Accounting for Investments in Securities, if a loss on a security is impaired, the loss that had been recognised directly in equity should be removed from equity and recognised in income statement for the period. As a result, the diminution relating to year 2000 has been recognised in the financial statements as a prior year adjustment and comparative figures for 2000 have been restated.

As a result of (a) and (b) above, the basic loss per share for the year ended 31 December 2000 has also been restated.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of preparation

(i) The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment property, investment securities and financial asset, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(ii) On 30 June 2000, the Company became the holding company of other companies comprising the Group pursuant to a group reorganisation (the "Reorganisation") which included exchange of shares. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated results of the Group for the year ended 31 December 1998 include the results of the Company and its subsidiaries with effect from 1 January 1998 or since their respective dates of incorporation, where this is a shorter period, as if the current group structure had been in existence throughout the year ended 31 December 1998.

(iii) During the year, the Group incurred a loss of HK$58,698,000. The ultimate holding company, Lit Cheong Holdings Limited, has agreed to provide financial support to the Group to continue its operations in the foreseeable future and to meet the Group's liabilities as they fall due.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

A subsidiary is a company in which the Company directly or indirectly holds more than 50% of the equity, or controls more than half of its voting power or controls the composition of its board of directors.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

The merger reserve of the Group includes the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of the shares issued by the Company in exchange thereof, and also any existing balance on the share premium account of the subsidiaries.

(c) Associates

An associate is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated balance sheet includes the Group's share of the net assets of the associates. The Group's share of post-acquisition profits or losses of associates is included in the consolidated income statement.

In the Company's balance sheet the investments in associates are stated at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associates acquired and is taken to reserves in the year of acquisition.

Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 whereas goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31. In accordance with the transitional provisions of SSAP 30, where an impairment loss has arisen since the date of acquisition on goodwill previously written off against reserves, and previously there was no policy to recognise such impairment losses, this change in accounting policy has been applied retrospectively and the impairment losses have been recognised as a prior year adjustment to opening retained earnings in accordance with SSAP 2.

On disposal of an investment in subsidiary and associate, the relevant portion of attributable goodwill, net of accumulation and any impairment losses is included in the determination of the profit or loss on disposal.

(e) Investment property

Investment property is interests in land and buildings in respect of which construction work and development has been completed and which is held for its investment potential, any rental income being negotiated at arm's length.

Investment property is stated at its open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment property is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement.

On disposals of investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is credited in the income statement.

No depreciation is provided on investment property which is held on leases with an unexpired term of more than 20 years.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Leasehold improvements are depreciated over the estimated useful lives or lease period, whichever is shorter. Other fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Network, computer and demo equipment	20% to 50%
Motor vehicles	33.33%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(g) Investment securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired the cumulative loss recorded in the revaluation reserve is taken to the income statement.

Transfers from the investment revaluation reserve to the income statement as a result of impairments are written back in the income statement when the circumstances and events leading to the impairment cease to exist.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Amortisation of intangible assets

(i) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identified and a market exists for the product such that it is probable for it to be profitable. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than three years to reflect the pattern in which the related economic benefits are recognised.

(ii) Trademarks

Trademarks are stated at cost and written off on a straight-line basis over their expected useful lives or over a period of two years, whichever is shorter.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis, and includes all costs of purchase.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Contracts in progress

Contracts in progress represent system integration contracts in progress and are stated at cost plus attributable profit recognised on the basis set out in note 3(n), less provisions for foreseeable losses and progress payments received and receivable, if any. Contract cost is calculated on the first in, first out basis and includes direct materials, direct labour and direct overheads.

Where progress payments received and receivable exceed contract cost incurred to date plus recognised profits less recognised losses, the net amount is treated as an amount due to customers for contract works.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Financial asset

Financial asset is held for non-trading purpose and is stated at fair value at the balance sheet date. At each balance sheet date the net unrealised gains or losses arising from the changes in fair value of financial asset is recognised in the income statement. Financial asset is reviewed regularly to determine whether it is impaired. When a financial asset is considered to be impaired, the impairment loss is recognised in the income statement.

(l) Cash and cash equivalents

Cash includes cash in hand and deposits repayable on demand with any bank or other financial institution. Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired less advances from banks repayable within three months from the date of the advance.

(m) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(n) Revenue recognition

The recognition of revenue/attributable profit from contracts commences when the outcome of a contract can be estimated reliably. Contract revenue is recognised by reference to the stage of completion of the contract activity at the balance sheet date, being the percentage of the contract costs incurred at the end of the year to the estimated total contract costs on completion, to the extent of amount of contract revenue received and subject to due allowances for contingencies. Provision is made for foreseeable losses as soon as they are anticipated by management.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Rental income is recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition *(Continued)*

Revenue from consultancy, maintenance, web application and Internet service provider ("ISP") services is recognised when the services are rendered, or pro-rata over the life of the agreement, where appropriate and corresponding to notional delivery of the service.

Licence fee income is recognised on an accrual basis.

(o) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease it is capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

Lease payments are allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are recorded as obligation under finance leases. Finance charges are debited to the income statement in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(p) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(q) Impairment of assets

At each balance sheet date, tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from sale in an arm's length transaction; value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if that is not possible, for the cash-generating unit.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Impairment of assets *(Continued)*

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment no longer exists or has decreased. The reversal is recorded in the income statement.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the carrying value of that asset. All other borrowing costs are charged to the income statement in the period in which they are incurred.

During the year, all borrowing costs are expensed as incurred.

(s) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

The financial statements of subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary or associate, the related cumulative exchange difference is included in the income statement as part of the gain or loss on disposal.

(t) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided using the liability method on all material timing differences, other than those which are not expected to crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employee's basic salaries are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(w) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

4. REVENUE AND TURNOVER

The Group is principally engaged in providing system integration services, sale of software and communication equipment, and providing web application, Internet, maintenance and consultancy services. Revenue recognised during the year are as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Turnover		
System integration contracts revenue	**43,943**	98,005
Sale of goods at invoiced value, net of returns and discounts	**12,472**	8,363
Web application services income	**5,603**	16,699
ISP services income	**9,550**	4,135
Maintenance services income	**1**	4,443
Consultancy services income	**—**	3,050
Rental income	**2,337**	—
	73,906	134,695
Other revenue		
Interest income	**524**	2,426
Licence fee income (note 32(a)(i) and (c))	**1,145**	1,016
Other income (note (a))	**25,011**	—
Gain on partial disposal of a subsidiary	**131**	—
	26,811	3,442
Total revenue	**100,717**	138,137

4. REVENUE AND TURNOVER *(Continued)*

Note (a):

Included in other income, there was a net gain of HK$23,250,000 for the forfeiture of advanced deposits of HK$23,520,000 less related expenses of HK$270,000 incurred for the following transaction. According to the subscription agreement (the "Subscription Agreement") entered into between the Group and an independent third party ("the Purchaser") on 13 March 2001, the Purchaser agreed to acquire 49% equity interests in iGreatLink.com Limited, an indirect wholly-owned subsidiary of the Company at a total consideration of HK$78.4 million. As the Purchaser failed to pay the third instalment of deposit which was due on 30 September 2001, the Company has the right to serve notice of termination to the Purchaser and forfeited by way of liquidated damages the total amount of deposits received pursuant to clause 2.5 of the Subscription Agreement. The details of the proposed disposal of iGreatLink.com Limited have been disclosed in two announcements issued by the Company on 13 March 2001 and 14 November 2001.

5. SEGMENTAL INFORMATION

The Group carries out its activities in Hong Kong and the People's Republic of China (the "PRC") (other than Hong Kong). An analysis of the Group's revenue and net profits/(loss) for the year and segment assets by principal activity and geographical market, respectively, is as follows:—

Business segments

For management purposes, the Group is currently organised into four divisions – system integration contracts, sale of software and communication equipment, web application and Internet services. Others include maintenance, consultancy and rental income. These divisions are the basis on which the Group reports its primary segmental information.

5. SEGMENTAL INFORMATION *(Continued)*

Segmental information about these businesses is presented below.

For the year ended 31 December 2001

	Group						
	System integration contracts revenue	**Sale of goods**	**Web application services income**	**ISP services income**	**Other operations**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER							
External revenue	43,943	12,472	5,603	9,550	2,338	—	73,906
Inter-segment revenue*	—	9,310	1,458	—	7,390	(18,158)	—
Total revenue	43,943	21,782	7,061	9,550	9,728	(18,158)	73,906
RESULT							
Segment result	(572)	537	(31,208)	(40,794)	(18,682)	25,585	(65,134)
Other revenue							26,811
Unallocated corporate expenses							(1,832)
Loss from operations							(40,155)
Finance costs							(3,807)
Share of loss of associates							(555)
Impairment of goodwill recognised upon the adoption of SSAP 31							(8,496)
Revaluation deficit on investment securities recognised							(6,814)
Loss before taxation							(59,827)
Taxation							(84)
Loss after taxation							(59,911)
ASSETS							
Segment assets	32,367	8,341	5,191	27,270	20,843		94,012
Unallocated corporate assets							85,913
Consolidated total assets							179,925
LIABILITIES							
Segment liabilities	33,876	5,503	4,276	23,328	12,120		79,103
Unallocated corporate liabilities							1,847
Consolidated total liabilities							80,950
OTHER INFORMATION							
Capital additions	995	350	7,357	5,569	41		14,312
Depreciation and amortisation	1,840	460	6,283	4,671	233		13,487
Bad debts written off	61	111	—	7,155	—		7,327
Provision for doubtful debt	—	—	—	—	563		563

* Inter-segment sales are charged at cost.

5. SEGMENTAL INFORMATION *(Continued)*

For the year ended 31 December 2000

	Group						
	System integration contracts revenue *HK$'000*	Sale of goods *HK$'000*	Web application services income *HK$'000*	ISP services income *HK$'000*	Other operations *HK$'000*	Elimination *HK$'000*	Total *HK$'000* *(Restated)*
TURNOVER							
External revenue	98,005	8,363	16,699	4,135	7,493	—	134,695
Inter-segment revenue*	—	660	1,080	—	—	(1,740)	—
Total revenue	98,005	9,023	17,779	4,135	7,493	(1,740)	134,695
RESULT							
Segment result	25,300	(2,961)	(704)	(13,453)	(3,462)	—	4,720
Other revenue							3,442
Unallocated corporate expenses							(2,258)
Profit from operations							5,904
Finance costs							(2,237)
Share of loss of associates							(409)
Impairment of goodwill recognised upon the adoption of SSAP 31							(21,847)
Revaluation deficit on investment securities previously recognised in reserve							(30,102)
Loss before taxation							(48,691)
Taxation							(2,850)
Loss after taxation							(51,541)
ASSETS							
Segment assets	44,238	13,735	28,587	33,551	28,133		148,244
Unallocated corporate assets							36,325
Consolidated total assets							184,569
LIABILITIES							
Segment liabilities	14,191	7,390	3,113	21,372	8,307		54,373
Unallocated corporate liabilities							6,591
Consolidated total liabilities							60,964
OTHER INFORMATION							
Capital additions	6,376	1,491	13,780	10,866	24,760		57,273
Depreciation and amortisation	954	1,420	2,523	1,937	1,485		8,319
Bad debt written off	—	220	—	—	—		220

* Inter-segment sales are charged at cost.

5. SEGMENTAL INFORMATION *(Continued)*

Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's system integration contract services is mainly carried out in the PRC whereas sale of software and communication equipment, web application and Internet services are carried out in Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:—

	Revenue by geographical market		**Contribution to (loss)/profit from operations**	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**37,977**	69,702	**(67,251)**	(30,110)
The PRC	**35,929**	64,993	**2,117**	34,830
	73,906	134,695	**(65,134)**	4,720
Other revenue			**26,811**	3,442
Unallocated corporate expenses			**(1,832)**	(2,258)
(Loss)/profit from operations			**(40,155)**	5,904

The following is an analysis of the carrying amount of segment assets, and additions to fixed assets and intangible assets by the geographical area in which the assets are used to generate the revenue:—

	Carrying amount of segment assets		**Additions to fixed assets and intangible assets**	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**48,723**	105,846	**13,522**	57,253
The PRC	**45,289**	42,398	**790**	20
Unallocated corporate assets	**85,913**	36,325	**—**	—
	179,925	184,569	**14,312**	57,273

6. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations is stated after charging the following:—

	Group	
	2001	2000
	HK$'000	*HK$'000*
		(Restated)
Amortisation of intangible assets	**4,253**	1,737
Auditors' remuneration	**425**	880
Bad debts written off	**7,327**	220
Contract costs	**33,849**	43,631
Cost of goods sold	**5,275**	4,985
Deficit arising on revaluation of investment property	**993**	—
Depreciation:		
Owned fixed assets	**4,882**	3,381
Leased fixed assets	**4,352**	1,414
	9,234	4,795
Fixed assets written off	**364**	—
Intangible assets written off	**7,232**	—
Loss on disposal of fixed assets	**565**	13
Net exchange loss	**107**	—
Operating leases:		
Land and buildings	**8,737**	6,758
Communication network and equipment rack rental	**4,740**	3,174
	13,477	9,932
Provision for doubtful debt	**563**	—
Provision for non-recoverable of loan to a related company	**800**	—
Staff costs excluding directors' emoluments	**18,016**	27,207

7. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest on bank loan and overdrafts	**1,682**	1,996
Interest on convertible notes wholly repayable within five years	**360**	75
Finance leases charges	**1,074**	166
Interest on convertible debentures	**691**	—
	3,807	2,237

8. TAXATION

The amount of taxation in the income statement represents:—

	Group	
	2001	2000
	HK$'000	*HK$'000*
Hong Kong profits tax		
— current *(note (a))*	**—**	2,610
— underprovision in previous year	**7**	240
— tax surcharge *(note (b))*	**77**	—
Overseas taxation - current *(note (c))*	**—**	—
	84	2,850

(a) No provision for Hong Kong profits tax is required since the Group has no assessable profit for the year. The amount provided for the year ended 31 December 2000 was calculated at 16% based on the assessable profit of the subsidiaries operating in Hong Kong for that year.

(b) Tax surcharge represents 5% tax surcharge on the profits tax payable of 2000 to be settled by instalments.

(c) No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC has no assessable income for PRC taxation purpose.

8. TAXATION *(Continued)*

(d) As at 31 December 2001, the potential deferred tax (assets)/liabilities not provided for in the financial statements amount to:—

	Group	
	2001	2000
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**(165)**	1,192
Tax losses	**(12,296)**	(4,676)
Other timing differences	**—**	1,178
	(12,461)	(2,306)

No potential deferred tax assets have been made in the financial statements as it is uncertain whether the amounts will crystallise in the foreseeable future.

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK$985,000 (2000: loss of HK$1,325,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2000:HK$ Nil).

11. LOSS PER SHARE

The calculation of basic loss per share is based on:

Loss	**2001** *HK$'000*	2000 *HK$'000* *(Restated)*
Net loss attributable to shareholders used in the calculation of basic loss per share	**(58,698)**	(49,439)

Number of shares	**2001**	2000
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	**1,019,467,524**	947,808,222

There is no dilution arising from the outstanding share options granted by the Company, the convertible notes and convertible debentures issued by the Group. Accordingly, no diluted loss per share for the year is presented. There were no potential dilutive shares during the year ended 31 December 2000.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:—

	2001 *HK$'000*	2000 *HK$'000*
Fees	**—**	—
Other emoluments		
— basic salaries and allowances	**3,491**	2,160
— mandatory provident fund contributions	**45**	4
	3,536	2,164

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

During the year, the non-executive director and two independent non-executive directors received directors' fee of HK$150,000 (2000: HK$Nil) each.

The number of directors whose emoluments fell within the following band was as follows:—

	2001	2000
Nil to HK$1,000,000	**6**	4

Two directors received individual emoluments of approximately HK$451,000 and HK$631,000 respectively for the year ended 31 December 2000.

Two directors received individual emoluments of approximately HK$900,000 and HK$600,000 respectively, two directors resigned during the year and received individual emoluments of approximately HK$700,000 and HK$750,000 respectively, two directors appointed during the year and received individual emoluments of approximately HK$232,000 and HK$354,000 respectively for the year ended 31 December 2001.

During the year, HK$300,000 have been paid by the Company to an executive director as compensation for loss of office, the amount was included in the basic salaries and allowances (2000: HK$Nil).

During the years ended 31 December 2000 and 2001, no emoluments have been paid by the Group to the directors as an inducement to join the Group.

In addition to the directors' emoluments disclosed above, 20,000,000 options granted to an executive director in 2000 under the pre-IPO share option scheme as stated in note 25(c) to the financial statements were cancelled on 9 January 2002. Up to the date of cancellation, no options had been exercised by the director.

No director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2000 and 2001.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2000: Nil) directors whose emolument are reflected in the analysis presented above. The emoluments paid to the remaining two (2000: five) individuals during the year are as follows:—

	2001	2000
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	**1,776**	3,569
Mandatory provident fund contributions	**24**	5
	1,800	3,574

The number of highest paid individuals whose remuneration fell within the following bands was as follows:—

	2001	2000
Nil to HK$1,000,000	**1**	5
HK$1,000,000 to HK$1,500,000	**1**	—
	2	5

During the years ended 31 December 2000 and 2001, no emoluments have been paid by the Group to the five highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

13. FIXED ASSETS

	Group						
	Leasehold land and building	Investment property	Leasehold improvements	Furniture, fixtures and office equipment	Network, computer and demo equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
At 1 January 2001	21,000	—	4,340	3,526	18,884	151	47,901
Additions	—	—	100	124	10,321	—	10,545
Transfer	(21,000)	21,000	—	—	—	—	—
Disposal of a subsidiary	—	—	(476)	(257)	(1,847)	(151)	(2,731)
Disposals	—	—	—	(55)	(1,516)	—	(1,571)
Write off	—	—	(117)	—	(527)	—	(644)
Revaluation deficit	—	(993)	—	—	—	—	(993)
At 31 December 2001	—	20,007	3,847	3,338	25,315	—	52,507
Accumulated depreciation							
At 1 January 2001	369	—	532	597	4,774	134	6,406
Charge for the year	138	—	832	670	7,581	13	9,234
Transfer	(507)	507	—	—	—	—	—
Disposal of a subsidiary	—	—	(140)	(69)	(1,418)	(147)	(1,774)
Disposals	—	—	—	(23)	(531)	—	(554)
Write off	—	—	(39)	—	(241)	—	(280)
At 31 December 2001	—	507	1,185	1,175	10,165	—	13,032
Net book value							
At 31 December 2001	—	19,500	2,662	2,163	15,150	—	39,475
At 31 December 2000	20,631	—	3,808	2,929	14,110	17	41,495

The analysis of cost or valuation at 31 December 2001 of the above assets are as follows:—

At cost	—	—	3,847	3,338	25,315	—	32,500
At valuation	—	19,500	—	—	—	—	19,500
	—	19,500	3,847	3,338	25,315	—	52,000

13. FIXED ASSETS *(Continued)*

	Company			
	Leasehold improvements	**Furniture, fixtures and office equipment**	**Network, computer and demo equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Additions during the year	21	109	59	189
Depreciation for the year	3	2	13	18
Net book value as at 31 December 2001	18	107	46	171

(a) The Group's investment property was revalued at 31 December 2001 on the basis of its open market value by B.I. Appraisals Limited, an independent firm of professional surveyors. This valuation gave rise to a revaluation deficit of HK$993,000 which has been debited to the income statement.

(b) The net carrying amount of the investment property would have been approximately HK$40,190,000 (2000: HK$40,562,500) had it been stated at cost less accumulated depreciation.

(c) The Group's investment property is located in Hong Kong and held under a lease period over 50 years.

(d) At 31 December 2001, the net book value of the investment property of the Group was pledged as security for the Group's banking facilities (note 28).

(e) Particulars of the Group's investment property at 31 December 2001 is as follows:—

Location	**Use**
Unit B, 16/F., United Centre, 95 Queensway, Hong Kong.	Office for rental

(f) The Group leases equipment under finance leases expiring from one to three years. At the end of each lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

13. FIXED ASSETS *(Continued)*

(g) At 31 December 2001 the net book value of fixed assets held under finance leases amounted to approximately HK$8,597,000 (2000: HK$6,073,000).

The Group leases out investment property under operating lease. The lease will be expired on 21 February 2004 with an option to renew the lease after that date on terms to be renegotiated. None of the lease includes contingent rentals.

The Group's total future minimum lease payments under operating lease are as follows:—

	2001	2000
	HK$'000	*HK$'000*
Within one year	**1,137**	—
Within two to five years	**1,326**	—
	2,463	—

14. INTANGIBLE ASSETS

	Group		
	Development costs	**Trademarks**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January 2001	9,054	873	9,927
Additions	3,767	—	3,767
Disposal of a subsidiary	(545)	—	(545)
Write off	(12,276)	(108)	(12,384)
At 31 December 2001	—	765	765
Amortisation			
At 1 January 2001	1,369	368	1,737
Charge for the year	3,785	468	4,253
Disposal of a subsidiary	(73)	—	(73)
Write off	(5,081)	(71)	(5,152)
At 31 December 2001	—	765	765
Net book value			
At 31 December 2001	—	—	—
At 31 December 2000	7,685	505	8,190

15. INVESTMENTS IN SUBSIDIARIES

	Company 2001 HK$'000	Company 2000 HK$'000
Unlisted shares, at cost *(note (a))*	**19,997**	19,997
Amounts due from subsidiaries *(note (b))*	**131,147**	90,727
	151,144	110,724

(a) Details of the principal subsidiaries at 31 December 2001 are as follows:—

Name	Place of incorporation	Issued and fully paid share capital	Attributable equity interest held Directly	Attributable equity interest held Indirectly	Principal activities and place of operation
DigiTel Group (BVI) Limited	British Virgin Islands	Ordinary US$34,190	100%	—	Investment holding in Hong Kong
Corp2Net.com Limited	Hong Kong	Ordinary HK$2	—	100%	Provision of web application services in Hong Kong
DigiTel Communication (Asia) Limited	Hong Kong	Ordinary HK$2	—	100%	Provision of system integration and engineering of broadband multimedia communication networks and distribution of digital communication equipment in Hong Kong

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation	Issued and fully paid share capital	Attributable equity interest held Directly	Attributable equity interest held Indirectly	Principal activities and place of operation
DigiTel Limited	British Virgin Islands	Ordinary US$1	—	100%	Investment holding in Hong Kong
DigiTel Venture Limited	British Virgin Islands	Ordinary US$1	—	100%	Investment holding in Hong Kong
Goway Investments Limited	Hong Kong	Ordinary HK$2 Non-voting HK$18	—	100%	Property leasing in Hong Kong
iGreatLink.com Limited	Hong Kong	Ordinary HK$51	—	100%	Provision of ISP services in Hong Kong
Lit Cheong DigiTel Limited	British Virgin Islands	Ordinary US$1	—	100%	Provision of system integration and engineering of broadband multimedia communication networks in the PRC
Regal Policy Limited	Hong Kong	Ordinary HK$2	—	100%	Property leasing in Hong Kong

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(b) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

16. INVESTMENTS IN ASSOCIATES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Share of net assets other than goodwill	**2,422**	2,977
Amount due from an associate *(note (b))*	**31**	—
Amount due to an associate *(note (b))*	**(1,732)**	(1,732)
	721	1,245

(a) Details of the associates at 31 December 2001 are as follows:—

Name	Place of incorporation	Issued and fully paid share capital	Attributable equity interest held Directly	Attributable equity interest held Indirectly	Principal activities and place of operation
Asiasoft Hong Kong Limited	Hong Kong	Ordinary HK$1,283,333	—	20%	Provision of information system products and services in Hong Kong
Asia Tech Holdings Limited ("Asia Tech")	Hong Kong	Ordinary HK$500,000	—	49%	Software development in Hong Kong

During the year, the Company has entered into a sale and purchase agreement with another shareholder of Asia Tech for the sale of 132,500 shares representing 2% equity interests of Asia Tech for a consideration of HK$132,500. In this connection, the aggregate interests in Asia Tech held by the Company was reduced from 51% to 49% and Asia Tech became an associate of the Company thereafter.

(b) The amounts due from/(to) an associate are unsecured, interest free and have no fixed terms of repayment.

17. INVESTMENT SECURITIES

	Group 2001 HK$'000	2000 HK$'000
Equity securities, at fair value		
Listed in Hong Kong	—	2,640
Unlisted investments	**51,000**	3,758
	51,000	6,398

At 31 December 2001 the carrying amount of the Group's holding on the following company exceeded 10% of the total assets of that company:—

Name	Place of incorporation	Issued and fully paid share capital	Attributable equity interest indirectly held 2001	2000	Principal activities and place of operation
Netpolis Communications Hong Kong Limited	British Virgin Islands	Ordinary US$100	17%	—	Provision of telecommunication services in Hong Kong, the PRC and overseas

18. FINANCIAL ASSET

	Group 2001 HK$'000	2000 HK$'000
Equity option, at fair value	**10,500**	—

Pursuant to an agreement dated 30 November 2001 entered into by the Group and two unrelated third parties, the Group agreed to purchase an irrevocable option (the "Option") to acquire the 100% equity ("Option Asset") of the unrelated third parties' company ("the unrelated company") in Guangzhou. The unrelated company is a domestic limited liability company organised and existing under the laws of the PRC with a total registered capital of RMB57 million. This unrelated company has obtained all necessary approvals to operate as a provider of Internet services at various cities in Guangdong province.

18. FINANCIAL ASSET *(Continued)*

The total fees for the grant of the Option is HK$10,500,000. The Group has the total discretion to exercise the Option in parts or in full within a term of 5 years from the date of the agreement. The purchase price for acquiring the Option Asset would be computed proportionately in accordance to the higher of HK$60 million or the net book value of the unrelated company according to the prevailing PRC accounting regulations at the date of exercise.

19. GOODWILL

	Group	
	2001	2000
	HK$'000	*HK$'000*
		(Restated)
Cost		
At 1 January	**21,847**	—
Additions	**8,496**	21,847
At 31 December	**30,343**	21,847
Impairment loss		
At 1 January	**21,847**	—
Charge for the year	**8,496**	21,847
At 31 December	**30,343**	21,847
Net book value		
At 31 December	**—**	—

The comparative financial statements for 2000 have been restated to conform with the changed accounting policy. As detailed in note 26, the opening retained earnings for 2001 have been reduced by HK$21,847,000 which is the amount of the adjustment in respect of impairment losses relating to periods prior to 2000. This change has resulted in increase in loss for the year by HK$8,496,000 (2000: HK$21,847,000) for impairment losses during the year.

20. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing its trade customers with credit period normally around 30 days or terms in accordance with sales contract. The aging analysis of trade receivables is as follows:

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables				
0 to 30 days	**1,525**	2,246	**—**	—
31 to 60 days	**135**	2,622	**—**	—
61 to 90 days	**135**	4,776	**—**	—
91 to 120 days	**135**	25,509	**—**	—
Over 120 days	**8,366**	9,311	**—**	—
Total trade receivables	**10,296**	44,464	**—**	—
Other receivables	**36,247**	22,185	**—**	—
Prepayments and deposits	**5,972**	8,119	**1,320**	253
	52,515	74,768	**1,320**	253

21. CONTRACTS IN PROGRESS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Contract costs incurred	**18,408**	18,245
Attributable profits less foreseeable losses	**40,604**	34,866
	59,012	53,111
Progress billings	**(59,012)**	(46,547)
	—	6,564
Amounts due from construction contract customers	**—**	6,564

22. TRADE AND OTHER PAYABLES

The aging analysis of trade payables is as follows:

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables				
0 to 30 days	**12,864**	12,854	**—**	—
31 to 60 days	**146**	3,249	**—**	—
61 to 90 days	**539**	1,584	**—**	—
91 to 120 days	**154**	417	**—**	—
Over 120 days	**945**	2,108	**—**	—
Total trade payables	**14,648**	20,212	**—**	—
Other payables	**4,898**	5,939	**1,502**	1,324
	19,546	26,151	**1,502**	1,324

23. LONG TERM BORROWINGS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Convertible notes *(note (c))*	**5,943**	5,553
Bank loan, secured *(note 28)*	**7,907**	9,999
	13,850	15,552
Obligations under finance leases	**9,880**	7,417
	23,730	22,969
Current portion of long term borrowings	**(9,010)**	(7,405)
	14,720	15,564

23. LONG TERM BORROWINGS *(Continued)*

(a) The bank loan and convertible notes are repayable as follows:—

	Bank loan		**Convertible notes** *(note(c))*	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**2,278**	1,942	**2,821**	1,111
In the second year	**2,278**	2,173	**2,821**	2,221
In the third to fifth year	**3,351**	5,884	**301**	2,221
	7,907	9,999	**5,943**	5,553

(b) Obligations under finance leases are repayable as follows:—

	2001			2000		
	Present value of the minimum lease payments	**Interest expenses relating to future periods**	**Total minimum lease payments**	Present value of the minimum lease payments	Interest expenses relating to future periods	Total Minimum lease payments
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	**3,911**	**1,489**	**5,400**	4,352	805	5,157
In the second year	**4,940**	**481**	**5,421**	2,958	179	3,137
In the third to fifth year	**1,029**	**36**	**1,065**	107	5	112
	9,880	**2,006**	**11,886**	7,417	989	8,406

23. LONG TERM BORROWINGS *(Continued)*

(c) Pursuant to an agreement dated 23 August 2000 entered into by the Group and a supplier, the Group will purchase from the supplier network equipment of not less than approximately HK$60 million within the period from 23 August 2000 to 31 December 2001. Under the agreement, 35% of each order value shall be payable upfront by the Group and the 65% balance will be financed by the issuance of convertible notes (the "Notes"), which bear interest at LIBOR + 0.5% per annum and repayable semi-annually in arrears in five equal instalments commencing from the 12th month from the date of each drawdown. The Notes, at the option of the holder, will be convertible into shares of the Company at a conversion price of HK$1.05 per share. Shares issued on conversion will rank pari passu in all respect with shares in issue at the time of conversion. Title of network equipment will pass to the Group only upon repayment in full by the Group.

As at 31 December 2001, the Group had outstanding convertible notes amounting to HK$5,943,000 (2000: HK$5,553,000).

24. CONVERTIBLE DEBENTURES

	Group and Company	
	2001	2000
	HK$'000	*HK$'000*
3% Convertible debentures	**12,870**	—

Pursuant to the Subscription Agreement dated 23 March 2001, entered into between the Company and certain independent subscribers (the "Subscribers"), the Company agreed to issue and the Subscribers agreed to subscribe for up to HK$78 million (US$10 million) 3% Convertible Debentures (the "Debentures") due 31 December 2001. The Debentures comprise three separate Tranches of HK$23,400,000 (US$3,000,000), HK$23,400,000 (US$3,000,000) and HK$31,200,000 (US$4,000,000) respectively.

The conversion prices shall equal:—

(i) for the first thirty days after and including the date of issuance of the Debentures, 125% of the average closing price of the shares of the Company over the 10 consecutive trading days immediately prior to the date of issuance of the Tranche 1 Debenture ("Price 1"); or

(ii) commencing on the thirty-first day after and including the date of issuance of the Debentures, the lower of Price 1 and the greater 93% of the average of the lowest 4 closing prices during the 20 consecutive trading days prior to the date of conversion; or

24. CONVERTIBLE DEBENTURES *(Continued)*

(iii) in the event the closing price per share for any 15 consecutive trading days shall equal, or fall below 35% of the relevant Price 1, subject to equitable adjustment following any stock splits, reverse stock splits or similar events affecting the shares after the establishment of such Tranche Base Price (the "Optional Redemption Price"), the Subscribers may give not less than 15 days notice in writing requiring the Company to redeem the whole or part of the outstanding debentures, in which event the relevant outstanding debentures shall be redeemed by the Company at a redemption amount equal to 115% of the outstanding debentures and such redemption amount together with any interest accrued and other amounts owing thereon shall be paid to the Subscribers.

By 31 December 2001, only the first Tranche had been issued to the extent of HK$23,400,000 (US$3,000,000) of which a total amount of HK$4,680,000 (US$600,000) was converted into shares of the Company.

On 3 December 2001, the Company entered into a Redemption Agreement with the Subscribers, pursuant to which the Company and the Subscribers have agreed to redeem the outstanding debentures of HK$18,720,000 (US$2,400,000). The total consideration for the Redemption of the outstanding debentures is HK$21,528,000 (US$2,760,000) ("Redemption Price") which is equal to 115% of the outstanding debentures.

Upon execution of the Redemption Agreement, the Company will pay to the Subscribers HK$5,460,000 (US$700,000).

Commencing from 30 December 2001 and for 8 consecutive months following that date, on the last day of each month or if said day is a holiday, the day prior to said holiday, the Company shall pay to the Subscribers in each of said months HK$1,560,000 (US$200,000), save the last month when the Company will pay to the Subscribers HK$780,000 (US$100,000), for a total amount of these nine payments of HK$13,260,000 (US$1,700,000).

On or before 30 August 2002 the Company shall pay to the Subscribers a payment of HK$2,808,000 (US$360,000) representing interest on the outstanding balance of said Debentures held by the Subscribers at the annual rate of 15% per annum; provided, however, that if all prior payments of the Redemption Price are made in full, all in a timely fashion, pursuant to the terms of the Redemption Agreement, the Company may at its option, instead of this cash payment of HK$2,808,000 (US$360,000) (hereinafter the "Redemption Premium"), make payment in shares, valued for purposes of this payment at the lower of HK$0.36 or the average closing bid price of the shares on 20 consecutive trading days prior to 30 August 2002 or the date said payment is made.

Accordingly, the Subscription Agreement was terminated and no further convertible debentures can be issued effective from the date of Redemption Agreement.

24. CONVERTIBLE DEBENTURES *(Continued)*

The movement of the Debentures is summarised as follows:—

	Note	**2001** **HK$'000**	2000 HK$'000
Debentures issued during the year under Tranche 1 (US$3,000,000)		**23,400**	—
Less:			
Redemption during the year		**(5,857)**	—
Conversion of debentures Converted into 11,564,125 shares at prices ranging from HK$0.22 to HK$0.62 per share (2000:Nil)			
Amount transferred to share capital account	*25*	**(1,156)**	—
Amount transferred to share premium account	*26*	**(3,517)**	—
At 31 December		**12,870**	—

25. SHARE CAPITAL

	2001		2000	
	Number of shares	**Nominal value** ***HK$'000***	Number of shares	Nominal value *HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**10,000,000,000**	**1,000,000**	10,000,000,000	1,000,000
Issued and fully paid:				
At 1 January	**1,000,000,000**	**100,000**	—	—
Shares issued upon incorporation	**—**	**—**	30,426	3
Shares issued upon reorganisation	**—**	**—**	199,969,574	19,997
Shares issued during the year *(note a)*	**29,166,667**	**2,917**	—	—
Issuance of shares by capitalisation of share premium account	**—**	**—**	700,000,000	70,000
Shares issued pursuant to the initial public offering of the Company	**—**	**—**	100,000,000	10,000
Conversion of Debentures *(note b)*	**11,564,125**	**1,156**	—	—
At 31 December	**1,040,730,792**	**104,073**	1,000,000,000	100,000

(a) During the year, 29,166,667 new ordinary shares of HK$0.934 each were issued to an independent third party. The net proceeds of approximately HK$27,300,000 were used to provide additional working capital of the Group. These newly issued shares rank pari passu with other shares in issue in all aspects. Further details have been disclosed in an announcement issued by the Company on 22 June 2001.

(b) During the year, 11,564,125 shares were allotted and issued pursuant to the exercise of the rights of conversion under the convertible debentures issued in April 2001.

25. SHARE CAPITAL *(Continued)*

(c) Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company adopted on 30 June 2000, the directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of the Company at an exercise price of HK$1.05 each.

No share options can be granted under the Pre-IPO Share Option Scheme after the listing of the shares of the Company on 12 July 2000.

As at 31 December 2001, there were 80,000,000 (2000: 90,000,000) outstanding share options granted under the Pre-IPO Share Options Scheme, which have a duration of 10 years from the date of grant of the options and exercisable after six months from the date of listing of the shares of the Company on GEM. During the year, 10,000,000 outstanding share options were cancelled due to resignation of an employee, and 20,000,000 and 30,000,000 outstanding share options would be cancelled in January 2002 to March 2002 due to resignation of a director and three employees respectively.

No share options were exercised under the Pre-IPO Share Option Scheme since its adoption.

(d) Under the share option scheme (the "Share Option Scheme") of the Company adopted on 30 June 2000, the directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of the Company at an exercise price determined by the board of directors and shall be no less than the higher of (i) the closing price of the shares on the date of grant; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The options are exercisable within a period not less than 3 years and not more than 10 years from the date of grant.

No share options were granted under the Share Option Scheme since its adoption.

26. RESERVES

(a) Group

	Share premium *HK$'000*	(Accumulated losses)/ Retained earnings *HK$'000*	Capital reserve on consolidation *HK$'000*	Investment revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Total *HK$'000*
At 1 January 2000	—	7,203	(19,997)	—	—	(12,794)
Revaluation deficit	—	—	—	(30,102)	—	(30,102)
Issuance of shares in DigiTel Group (BVI) Limited ("DGBL") prior to the Reorganisation	—	—	79,365	—	—	79,365
Placing of shares	95,000	—	—	—	—	95,000
Placing and listing expenses	(14,022)	—	—	—	—	(14,022)
Capitalisation issue	(70,000)	—	—	—	—	(70,000)
Goodwill arising on acquisition of a subsidiary and an associate	—	—	(21,847)	—	—	(21,847)
Profit for the year	—	2,510	—	—	—	2,510
At 31 December 2000 and at 1 January 2001 as previously reported	10,978	9,713	37,521	(30,102)	—	28,110
Impairment of goodwill recognised upon the adoption of SSAP 31 *(note 2(a))*	—	(21,847)	21,847	—	—	—
Revaluation deficit on investment securities recognised *(note 2(b))*	—	(30,102)	—	30,102	—	—
As retrospectively restated	10,978	(42,236)	59,368	—	—	28,110
Premium on issuance of shares	24,383	—	—	—	—	24,383
Conversion of debentures *(note 24)*	3,517	—	—	—	—	3,517
Share issuance expenses	(151)	—	—	—	—	(151)
Conversion of debentures expenses	(2,194)	—	—	—	—	(2,194)
Exchange difference arising from translation of financial statements of subsidiaries outside Hong Kong	—	—	—	—	(65)	(65)
Loss for the year	—	(58,698)	—	—	—	(58,698)
At 31 December 2001	36,533	(100,934)	59,368	—	(65)	(5,098)
Company and subsidiaries	36,533	(99,969)	59,368	—	(65)	(4,133)
Associates	—	(965)	—	—	—	(965)
At 31 December 2001	36,533	(100,934)	59,368	—	(65)	(5,098)

26. RESERVES *(Continued)*

(b) Company

	Share premium HK$'000	Accumulated loss HK$'000	Total HK$'000
At 1 January 2000	—	—	—
Placing of shares	95,000	—	95,000
Placing and listing expenses	(14,022)	—	(14,022)
Capitalisation issue	(70,000)	—	(70,000)
Loss for the year	—	(1,325)	(1,325)
At 31 December 2000 and at 1 January 2001	10,978	(1,325)	9,653
Issuance of shares	24,383	—	24,383
Conversion of debentures	3,517	—	3,517
Share issuance expenses	(151)	—	(151)
Conversion of debentures expenses	(2,194)	—	(2,194)
Loss for the year	—	(985)	(985)
At 31 December 2001	36,533	(2,310)	34,223

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash outflow from operating activities:—

		Group	
		2001	2000
	Note	***HK$'000***	*HK$'000*
			(Restated)
Loss before taxation		**(59,827)**	(48,691)
Depreciation		**9,234**	4,795
Amortisation of intangible assets		**4,253**	1,737
Loss on disposal of fixed assets		**565**	13
Gain on partial disposal of investment in a subsidiary		**(131)**	—
Deficit arising on revaluation of investment property		**993**	—
Intangible assets written off		**7,232**	—
Fixed assets written off		**364**	—
Share of loss of associates		**555**	409
Impairment loss of investment securities		**6,814**	30,102
Impairment loss of goodwill arising on acquisition of a subsidiary and an associate		**8,496**	21,847
Interest income		**(524)**	(2,426)
Interest on bank loan and overdrafts		**1,682**	1,996
Interest on convertible debentures		**691**	—
Interest on convertible notes		**360**	75
Finance leases charges		**1,074**	166
Deposit forfeited for partial disposal of a subsidiary	*4(a)*	**(23,520)**	—
Increase in inventories		**(23,212)**	—
Decrease/(increase) in contracts in progress		**6,564**	(6,564)
Decrease/(increase) in trade and other receivables		**21,182**	(63,634)
Decrease in amount due from a former ultimate holding company		**—**	37,558
Increase in trade and other payables		**2,854**	1,327
Decrease in amounts due to customers for contract works		**—**	(3,756)
Increase in amount due from an associate		**(31)**	—
Net cash outflow from operating activities		**(34,332)**	(25,046)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year

	Share capital including share premium HK$'000	Capital reserve on consolidation HK$'000	Bank loan and convertible notes HK$'000	Obligations under finance leases HK$'000	Convertible debentures HK$'000
At 1 January 2000	19,997	(19,997)	—	—	—
Purchase of subsidiaries	—	—	11,316	100	—
Issuance of shares of					
— the Company	105,003	—	—	—	—
— DGBL prior to the Reorganisation	—	37,365	—	—	—
Issuance of shares of DGBL as considerations for investments	—	42,000	—	—	—
Placing and listing expenses	(14,022)	—	—	—	—
Issuance of convertible notes *(note 23)*	—	—	5,553	—	—
Goodwill arising on acquisition of a subsidiary and an associate	—	(21,847)	—	—	—
Proceeds from sale and leaseback arrangements	—	—	—	7,393	—
Cash outflow from financing	—	—	(1,317)	(76)	—
At 31 December 2000 and at 1 January 2001					
As previously reported	110,978	37,521	15,552	7,417	—
Impairment loss on goodwill recognised upon the adoption of SSAP 31	—	21,847	—	—	—
As retrospectively restated	110,978	59,368	15,552	7,417	—
Disposal of a subsidiary	—	—	—	(399)	—
New issuance of shares	27,300	—	—	—	—
New issuance of convertible debentures	—	—	—	—	23,400
New issuance of shares by conversion of debentures	4,673	—	—	—	(4,673)
Inception of finance lease	—	—	—	4,438	—
New issuance of convertible notes	—	—	1,500	—	—
Share issuance expenses	(2,345)	—	—	—	—
Redemption of debentures	—	—	—	—	(5,857)
Proceeds from sale and leaseback arrangements	—	—	—	3,945	—
Cash outflow from financing	—	—	(3,202)	(5,521)	—
At 31 December 2001	140,606	59,368	13,850	9,880	12,870

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Major non-cash transaction

During the year the Group entered into finance lease arrangement in respect of fixed assets with total capital value at the inception of the leases of approximately HK$4,438,000 (2000: HK$Nil).

(d) Purchase of subsidiaries

	Group	
	2001	2000
	HK$'000	*HK$'000*
Net assets acquired		
Fixed assets	—	21,301
Trade and other receivables	—	3,380
Bank and cash balances	—	2
Trade and other payables	—	(8,107)
Bank overdrafts	—	(380)
Bank loans	—	(11,316)
Obligations under finance leases	—	(100)
Minority interests	—	2,403
	—	7,183
Goodwill	**8,450**	11,501
Satisfied by cash consideration	**8,450**	18,684

Analysis of the net cash outflow in respect of the purchase of subsidiaries:—

	Group	
	2001	2000
	HK$'000	*HK$'000*
Cash consideration	**8,450**	18,684
Bank and cash balances of subsidiaries purchased	—	(2)
Bank overdrafts of subsidiaries purchased	—	380
Net cash outflow in respect of the purchase of subsidiaries	**8,450**	19,062

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(e) Disposal of a subsidiary

On 6 April 2001, the Company disposed 2% equity interests in Asia Tech. In this connection, the aggregate interest in Asia Tech held by the Company was reduced from 51% to 49% and regarded it as an associate thereafter.

	Group	
	2001	2000
	HK$'000	*HK$'000*
Net liabilities disposal of:		
Fixed assets	**958**	—
Research and development	**472**	—
Trade and other receivables	**1,602**	—
Prepayment and deposit	**1,101**	—
Bank and cash balances	**54**	—
Trade and other payables	**(9,857)**	—
Minority interests	**5,718**	—
	48	—
Goodwill	**(46)**	—
Gain on partial disposal of a subsidiary	**131**	—
	133	—
Satisfied by:		
Amount receivable	**133**	—

Analysis of the net outflow of cash and cash equivalents in respect of the partial disposal of a subsidiary:—

	Group	
	2001	2000
	HK$'000	*HK$'000*
Cash consideration	**—**	—
Bank and cash balances disposal of	**(54)**	—
Net cash outflow in respect of partial disposal of a subsidiary	**(54)**	—

28. BANKING FACILITIES

At 31 December 2001 the Group's banking facilities of HK$62,000,000 (2000: HK$64,000,000) are secured by the following:—

(a) legal charge on the investment property of the Group; and

(b) corporate guarantees given by the Company amounting to HK$62,000,000.

29. CONTINGENT LIABILITIES

(a) Other than the corporate guarantees given by the Company to banks for banking facilities granted to the Group as set out in note 28 to the financial statements, as at 31 December 2001, the Company had contingent liabilities in respect of guarantees for the due performance of certain subsidiaries under obligations under finance leases and the Convertible Notes as set out in notes 23 (b) and 23 (c) to the financial statements respectively.

(b) At 31 December 2001 the Company had given unconditional guarantees to a financial institute to secure a short-term loan granted to a third party to the extent of approximately HK$18,692,000 (2000: Nil).

30. OPERATING LEASE COMMITMENTS

At 31 December 2001 the total future minimum lease payments under non-cancellable operating leases for the land and buildings and communication network and equipment rack are payable as follows:—

	Group	
	2001	2000
	HK$'000	*HK$'000*
Land and buildings		
Within one year	**11,427**	11,274
In the second to fifth years inclusive	**3,701**	15,128
	15,128	26,402
Communication network and equipment rack		
Within one year	**—**	5,040
	15,128	31,442

31. RETIREMENT SCHEME

The Group has implemented a mandatory provident fund scheme for its staff in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance effective from 1 December 2000. The pension scheme contributions charged to income statement represent contributions payable (i.e. 5% of staff's relevant income with upper monthly limit of HK$1,000) by the Group to the specified retirement fund of the individual employee. The Group's contribution to the scheme charged to income statement was approximately HK$830,000 (2000: HK$111,000) for the year.

32. RELATED PARTY TRANSACTIONS

In the normal course of business the Group entered into the following significant transactions with its related parties during the year:—

	Note	**2001** **HK$'000**	2000 *HK$'000*
Licence fee from Lit Cheong Group Limited ("LCGL")	*(a)(i)*	**512**	1,016
Rental income from LCGL	*(a)(ii)*	**968**	—
Consultancy fee paid to Lit Cheong Engineering Services Limited ("LCESL")	*(b)*	**278**	—
Licence fee from Asia Tech	*(c)*	**633**	—
Goods sold to Century Innovation Enterprises Limited ("CIE")	*(d)*	**4,680**	—

(a) (i) On 21 June 2000, the Group entered into a licence agreement with LCGL, pursuant to which the Group licenses LCGL to use the premises which are rented by the Group, for a term commencing from 1 June 2000 to 18 April 2003. The total monthly licence fee, including air-conditioning and management charges, which are determined based on prevailing market rent, are approximately HK$175,000. This licence agreement has been terminated by both parties on 31 July 2001.

(ii) Subsequent to the above termination of the licence agreement, the Group entered into a tenancy agreement with LCGL on 21 August 2001. Pursuant to the agreement, the Group is committed to sublet the premises to LCGL, for a term commencing from 1 August 2001 to 31 March 2002. The total monthly rental including air-conditioning, management charges and Government rent and rates, which are determined based on prevailing market rent, are approximately HK$123,000. This tenancy agreement has been terminated by both parties on 30 November 2001.

LCGL is held by trusts in which certain family members of the directors of the Company, Mr. LEE Chuen Bit and Mr. HUNG Hin Cheong, are potential capital beneficiaries. These potential capital beneficiaries will become capital beneficiaries if and when so declared.

32. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Mr. LEE Chuen Bit and Mr. HUNG Hin Cheong are the directors of LCESL. LCESL is indirectly held by LCGL.

For the above (a) and (b), Mr. HUNG Hin Cheong has resigned as a director of the Group with effect from 29 November 2001.

(c) On 21 June 2000, the Group entered into a licence agreement with Asia Tech, pursuant to which the Group licenses Asia Tech to use the premises which are rented by the Group, for a term commencing from 1 June 2000 to 18 April 2003. The total monthly licence fee, including air-conditioning and management charges, which are determined based on prevailing market rent, are approximately HK$192,000. This licence agreement has been terminated by both parties on 15 December 2001.

(d) Mr. KONG Siu Ming is a director of CIE.

33. POST BALANCE SHEET EVENTS

There were no significant matters which occurred since the balance sheet date to the date of this financial statements and which have had or may have a material effect on the financial position of the Group at 31 December 2001 or the results for the year then ended.

34. ULTIMATE HOLDING COMPANY

The directors regard Lit Cheong Holdings Limited, a company incorporated in British Virgin Islands, as being the ultimate holding company.

35. COMPARATIVE FIGURES

The comparative figures were audited by other firms of certified public accountants in Hong Kong. Certain comparative figures have been reclassified to conform with current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 42 to 95 were approved and authorised for issue by the board of directors on 26 March 2002 and are signed on its behalf by:

Lee Chuen Bit	**Kong Siu Ming**
Director	Director

FINANCIAL SUMMARY

For The Year Ended 31 December 2001

	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		
Results				
Turnover	**73,906**	134,695	42,710	33,857
(Loss)/profit from operations	**(40,155)**	5,904	9,866	6,979
Finance costs	**(3,807)**	(2,237)	(115)	(30)
Share of loss of associates	**(555)**	(409)	—	—
Impairment of goodwill recognised upon the adoption of SSAP 31	**(8,496)**	(21,847)	—	—
Revaluation deficit on investment securities recognised	**(6,814)**	(30,102)	—	—
(Loss)/profit before taxation	**(59,827)**	(48,691)	9,751	6,949
Taxation	**(84)**	(2,850)	(1,058)	(1,478)
(Loss)/profit from ordinary activities before minority interests	**(59,911)**	(51,541)	8,693	5,471
Minority interests	**1,213**	2,102	—	—
(Loss)/profit attributable to shareholders	**(58,698)**	(49,439)	8,693	5,471
Assets and liabilities				
Total assets	**179,925**	184,569	40,929	17,778
Total liabilities	**(80,950)**	(60,964)	(33,726)	(9,269)
Minority interests	**—**	4,505	—	—
Shareholders' funds	**98,975**	128,110	7,203	8,509